DARCO

SOLUTIONS TO WATER & WASTE

PROVIDING OUT OF THE BOX SOLUTIONS

ANNUAL REPORT 2018

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.

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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 expanded its operations into the solar energy by issuing the letter of intent to purchase Con Dao Green Energy Co. Ltd., the Build-Own-Operate ("BOO") developer of Con Dao Solar Power Park in Vietnam ("Farm") which will have a capacity of 5 megawatt peak (MWp) upon completion.

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 acquired an additional 12% of the total equity interest in Wuhan Kaidi during the year, bringing the Group's ownership up to 72% in Wuhan Kaidi.

China has continued to be the key market for the Group, contributing to 52.5% of total Group's earnings in 2018. During the year, the Group has successfully secured three major contracts which are worth an aggregate of RMB107.58 million (equivalent to approximately S$22.45 million based on exchange rate of 1 RMB = S$4.7912) in China. The contracts will be executed over 3 years, which is from Year 2018 to Year 2020.

During the year, the Group's wholly owned subsidiary, Ness Plus Trading Sdn. Bhd. ("Ness") has signed an exclusive distribution agreement with Aquaporin A/S ("Aquaporin") in Malaysia, allowing Ness to distribute revolutionary products containing the Aquaporin Inside® Forward Osmosis Technology in Malaysia and Singapore.

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. The Group is 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 successfully completed the share placements with several parties which include Stone Robert Alexander, Sofos Infrastructure Investment Fund SPC and Wang Zhi, raising $21 million in total. With this capital, the Group is equipped to undertake more projects moving ahead. Tapping on Mr. Wang Zhi's network and expertise in the water industry, there is also a potential water 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 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 2018 ("FY2018").

Since my re-designation as the Chairman of the Group in May 2018, I have been proactively engaging key management, employees, stakeholders and customers, placing great emphasis on fulfilling our obligations to all stakeholders. I will be working along with the team to set policies and goals to further increase shareholders' value. Most importantly, we will continue to identify new business opportunities and improve on our current businesses to steer the Group back to profitability.

In FY2018, the Group recorded revenue of $83.8 million, representing an increase of 38.0% from $60.7 million in FY2017. This was due to higher contribution from Environmental Systems ("EE Systems") as well as sales from trading of chemical and spare parts, but partially offset by a decrease in Water Management Services ("WM Services"). China remained as our key market with a contribution of $44.0 million, or 52.5% to the total revenue in FY2018. However, the Group recorded a net loss of $1.8 million in FY2018 mainly due to higher administrative expenses, finances costs, marketing and distribution expenses coupled with tough business environment.

PEOPLE'S REPUBLIC OF CHINA

Revenue from China increased significantly from $26.1 million in FY2017 to $44.0 million in FY2018, representing a growth of 68.6%. China remains as one of our top markets, contributing 52.5% revenue to the Group.

During the year, the Group has secured 51 water treatment contracts worth an aggregate of RMB286.26 million in China. One of the notable projects, an Engineering, Procurement and Construction ("EPC") project in Hebei with a contract value of RMB53.8 million was awarded by Huaneng Power International Inc. The project involves capacity expansion of the water reuse facility of one of the largest thermal power plants located in the centre of the southern Hebei Power Grid. It is also the largest thermal power plant in southern Hebei.

The contracts win for the projects in China underscores our strong technological capability in providing effective solution to our customers. China offers tremendous growth opportunities to the Group in the environmental protection industry. By leveraging on Wuhan Kaidi's track record and technical expertise, we strive to continue building on the growing momentum in China.

Furthermore, the Group has also signed a non-binding Letter of Intent with Mr. Wang Zhi in respect of a proposed investment in a Build-Operate-Transfer ("BOT") Gaoyi Domestic Waste Water Treatment Project (the "Project") which has a concession period of 30 years. Mr. Wang Zhi will transfer 100% of his equity interest in the Project to the Group, which he held through He Bei Kai Yuan Cheng He Water Engineering Co., Ltd., a PRC company where he was the controlling shareholder, in satisfaction of his obligation, pursuant to his deed of undertaking dated 23 November 2017. The total consideration would be RMB60.0 million which will be funded by a combination of the Group's internal resources and debt financing.

The Plant is located in Hebei Province, Shijiazhuang Capital, Gaoyi County, covering an area of 45 acres. It mainly involves the Anaerobic/Anoxic/Oxic treatment process to treat wastewater for residential and non-residential sources. The Plant is currently undergoing upgrading process and refurbishment and it is expected to be completed by December 2018. The wastewater treatment capacity of Phase I is 20,000 ton/day with a concessionary

CHAIRMAN STATEMENT

period of 30 years and its capacity will further increase to 40,000 ton/day in 2028 upon completion of the Phase 2 construction.

This proposed investment will strengthen the earnings profile of the Group where the Group can generate recurring income stream from the BOT wastewater treatment asset. Looking ahead, we will strive to look for more opportunities in China especially for BOT or BOO water treatment projects to further strengthen our foothold in China's water industry.

MALAYSIA

Revenue from Malaysia improved from \$20.3 million in FY2017 to \$31.1 million in FY2018, representing a growth of 53.0%. Malaysia remains as one of our top markets, contributing 37.1% revenue to the Group

The Group's wholly owned subsidiary, Ness Plus Trading Sdn. Bhd. ("Ness") has signed an exclusive distribution agreement with Aquaporin A/S ("Aquaporin") in Malaysia, allowing Ness to distribute revolutionary products containing the Aquaporin Inside® Forward Osmosis Technology in Malaysia and Singapore. This also marks Aquaporin's first exclusive distribution agreement signed in Malaysia.

Aquaporin Inside® Forward Osmosis Technology, a proprietary technology developed by Aquaporin, increases operational efficiency as it consumes less energy and eventually lower the operating costs. The Malaysian government aims to have 99% of the population served with clean and treated water by 2020[1]. Therefore, the timely introduction of this technology in Malaysia is well-positioned to tap on the favourable trend.

The collaboration built upon a previously announced successful joint development project and is in line with our dedication to be an integrated environmental solutions provider. The Aquaporin Inside® Forward Osmosis Technology's distribution right is initially for Malaysia and Singapore. With the Group's know-how in building and operating forward osmosis systems, the Group is ideally poised to capture market shares in the growing market for forward osmosis-based solutions.

Besides that, the Group's subsidiary, Darco Water System Sdn Bhd, has clinched a project with a total contract value of RM15.4 million (~S\$5.2 million) from ASM Technology (M) Sdn Bhd. ("ASMT"), the world's No. 1 player in semiconductor packaging and assembly equipment industry. It is ranked as the Top 100 Global Technology Leaders 2018 by Thomson Reuters. The project involves the delivery of a 4,000 m^3/day ultrapure water treatment package consisting of reverse osmosis and deionization systems, and a 2,000 m^3/day wastewater treatment package to ASMT's plant in Johor. The project is expected to be completed within 6 to 12 months.

SINGAPORE

Revenue from Singapore decreased by 24.3% to \$7.9 million in FY2018 from \$10.4 million in FY2017, representing a contribution of 9.4% to the Group's revenue.

Following the Group's success in securing projects for the building of centralized domestic waste collection in Singapore in 2016, the Group's wholly owned subsidiary, PV Vacuum Engineering Pte. Ltd. ("PV Vacuum") has been awarded a S\$23.5 million contract for the retrofitting of a District Pneumatic Waste Conveyance System ("PWCS") into the Teck Ghee Estate under the HDB Greenprint Program. PV Vacuum shall also be involved in the maintenance of the PWCS over the next 10 years, generating a recurring income stream for the Group. The project is expected to be completed in 2020.

PWCS is a sustainable and green initiative by HDB, providing a more efficient, manpower-light approach to waste collection within the estate, while reducing pest and odour nuisance resulting from exposed waste. It transports waste from rubbish chutes to a centralized bin centre via a network of pipes (under or above-ground), thus removing the need to manually collect waste. It is mandatory for developments with 500 housing units and above to have a PWCS starting from April 2018. Leveraging on our strong technological capability, we are determined to secure more contracts in this segment to further enhance our profitability.

STRENGTHENING PRESENCE IN NEW MARKET

Riding on the industrial growth and favourable government policies in Vietnam, the Group has further exerted its presence in that region by securing a RM7.0 million (~S\$2.3 million) contract to build a water treatment plant for First Solar's manufacturing facility in Vietnam. First Solar is a leading global provider

[1] 95% of populated areas with broadband infrastructure target, http://www.thesundaily.my/news/1426067

of photovoltaic solar systems, and this project includes designing and building an ultrapure water system with a treatment capacity of 70 m^3/hr, as well as a lifting batch tank system to collect the wastewater generated. The project is expected to be completed within 6 to 12 months.

Vietnam is one of the countries that enjoys the most sunlight in the world. However, their solar power accounts for only 0.01% of the total energy output. Thus, Vietnam's government introduces policies to promote the use of solar power and aims to increase its total output of solar power to 3.3% and 20% by 2030 and 2050 respectively[2]. Solar power is expected to become the main renewable energy source in Vietnam, presenting huge business opportunities in Vietnam's solar power industry[3].

Therefore, the Group has issued a Letter of Intent to purchase Con Dao Green Solar Power Park in Vietnam which will have a capacity of 5-megawatt peak (MWp) upon completion. The Farm shall be situated at Dat Doc beach area in Con Dao District, Vietnam with an area of 84,535 m^2. The Farm is expected to have the capability to generate an electricity output of 6.8Wh per year. The investment cost of the Farm is about US$7.2 million. The Letter of Intent allows the Group to carry out preliminary due diligence before signing the Sale and Purchase Agreement.

Solar panels were expensive in the past, thus making it difficult to generate profits without government subsidies. However, the advancement in technology over the years has further reduced the cost of solar panel production, making it relatively affordable to the users. Due to its lower cost, solar power has become one of the viable options in power generation, relatively competitive to fossil fuels. It is a choice business decision, but the biggest barrier of entry remains the ability to secure land, as Solar Farms require extensive land surface.

The business model in the solar power industry is very much similar to water concession and wastewater BOO/BOT projects, as it involves mechanical and electrical installation, as well as operation and maintenance. Inadvertently, operating a solar power plant is much simpler, involving only one type of input – sunlight, whereas the input of water treatment plants may vary.

We see business opportunities in the solar power industry as the industry is growing largely driven by increase in environmental pollution and reduction in cost of solar power. Thus, we intend to venture into Vietnam's solar power industry on a small scale and eventually have plans to extend it to other markets upon our successful expansion.

WORDS OF APPRECIATION

First of all, I would like to welcome Mr. Wang Zhi as the Non-Executive Deputy Chairman of the Company. Mr. Wang has more than 15 years of experience in the business of water and wastewater treatments and water supply. He is currently the Chairman of Future Holdings Group Co., Limited, ("FHG") a company incorporated in Hong Kong which is involved in investment and management of water supply, renewable energy and tourism and ecological agriculture businesses. With his wealth of experience and knowledge, we believe that he will be able to provide valuable insights and guidance to the Group.

In addition, Mr. Thye Kim Meng who was the Chairman, Managing Director and Chief Executive Officer of the Company has been re-designated as the Managing Director and Chief Executive Officer with effect from 8 May 2018. Mr. Thye would continue to implement current growth strategy and policies of the Group.

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.

WANG YAOYU
EXECUTIVE CHAIRMAN

[2] Vietnam's solar power market, https://www.vietnam-briefing.com/news/vietnams-solar-power-market.html/
[3] Vietnam strives to attract more investment in solar power, https://en.vietnamplus.vn/vietnam-strives-to-attract-more-investment-in-solar-power/126514.vnp

BOARD OF DIRECTORS

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.

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 54, 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.

THYE KIM MENG

Singapore Permanent Resident, Aged 66

Managing Director and Chief Executive Officer

MR. THYE KIM MENG

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

MS. HEATHER TAN

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.

HEATHER TAN CHERN LING

Singapore Permanent Resident, Aged 38

Executive Director (Process Engineering and Design)

TAY LEE CHYE LESTER

Singapore Citizen, Aged 45

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 47

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.

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.

OH CHEE SIEN

Singapore Citizen, Aged 43

Independent Director

KEY MANAGEMENT

TEH CHUN SEM
Aged 32
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.

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.

THYE KIM FAH
Aged 68
General Manager

OPERATIONS REVIEW

INCOME STATEMENT REVIEW

Revenue increased 38.0% year-on-year ("yoy") from $60.7 million in FY2017 to $83.8 million in FY2018.

SEGMENTAL CONTRIBUTION

Revenue from Engineered Environmental Systems ("EE Systems") increased from $40.7 million in FY2017 to $63.7 million in FY2018 mainly due to higher contribution from the Engineering, Procurement, and Construction ("EPC") projects in China and Malaysia.

Revenue from Water Management Services ("WM Services") decreased from $10.7 million in FY2017 to $8.4 million in FY2018 following the sale of Darco Youli Medical Waste operations in Taiwan, resulting in no service revenue contribution from that subsidiary. As per announcement dated 16 June 2017, the Group has entered into two separate sale and purchase agreements for the disposal of Darco Youli, which was completed on 30 September 2017.

Sales from trading of chemical, spare parts and others increased from $9.3 million in FY2017 to $11.7 million in FY2018 mainly due to higher trading volume of parts in Malaysia to our water treatment customers in Malaysia.

GEOGRAPHICAL CONTRIBUTION

Malaysia, China and Singapore are the main markets of the Group which contributed 98.9% of the total Group's revenue.

The Group's overall gross profit maintained at $14.0 million in FY2018 as compared to $14.6 million in FY2017. However, the Group's overall gross profit ("GP") margin has decreased from 24.1% in FY2017 to 16.6% in FY2018. Due to the stiff competition in the China market, the Group has had to lower its profit margin when tendering and securing the larger contracts in China. As China is one of our major market segments, the lower margin for China projects has significantly reduced the overall Group profit margin for the year.

The Group's other income decreased from $1.3 million in FY2017 to $0.7 million in FY2018, in the absence of a one-off reversal amount of $1.0 million due to a contract customer, as reflected in FY2017. In FY2017, the Management then had determined that a project that was included in a contract order signed in July 2015 (pre-acquisition of WHKD, with no work started to-date), had no prospect of completion. Accordingly, the reversal of the amount due to contract customer in relation to that project has been made in FY2017.

However, the decrease was partially offset by the increased in government grant income which increased from $151,000 in FY2017 to $389,000 in FY2018.

The group's marketing and distribution expenses increased from $1.7 million in FY2017 to $2.1 million in FY2018 mainly due to higher marketing cost incurred in China. The increased in the sales and marketing expenses mainly due to the China subsidiary has participated in more tenders and secured more larger EPC projects in China.

Administrative expenses which comprise of staff salary, professional fees, rental and other operating expenses, increased slightly from $12.0 million in FY2017 to $13.1 million in FY2018, mainly due to the followings: (i) Group's expenditure of $0.5 million in FY2018 for the developmental costs of concession projects in Vietnam. This includes professional fees paid in engaging technical and

SEGMENTAL REVENUE CONTRIBUTION

	Engineered Environmental Systems	Water Management Services	Trading Sales	Consolidated
YEAR ENDED 31 DEC 2018 ($'000)	63,723	8,384	11,725	83,832
YEAR ENDED 31 DEC 2017 ($'000)	40,706	10,677	9,348	60,731

legal consultants in Vietnam. (ii) The research and development costs has increased from $1.0 million in FY2017 to $1.4 million in FY2018. Research and development costs are mainly incurred by the subsidiary in China in performing water treatment research and development technology. (iii) Impairment for trade receivables and contract assets amounting to $0.5 million has been made under the new SFRS(I) 9.

As a result of the above, the Group registered a net loss of $1.8 million in FY2018, as compared to a net profit of $1.2 million in FY2017.

Current assets of $100.3 million as at 31 December 2018 mainly comprised of trade and other receivables of $69.0 million and cash and bank balances of $27.9 million.

Non-current assets of $11.6 million as at 31 December 2018 largely comprised of intangible assets of $5.7 million, property, plant and equipment of $5.2 million, other receivable of $0.6 million and deferred income tax assets of $0.1 million.

Current liabilities of $56.2 million as at 31 December 2018 comprised of trade and other payables of $47.4 million, borrowings of $8.3 million and income tax payable of $0.5 million.

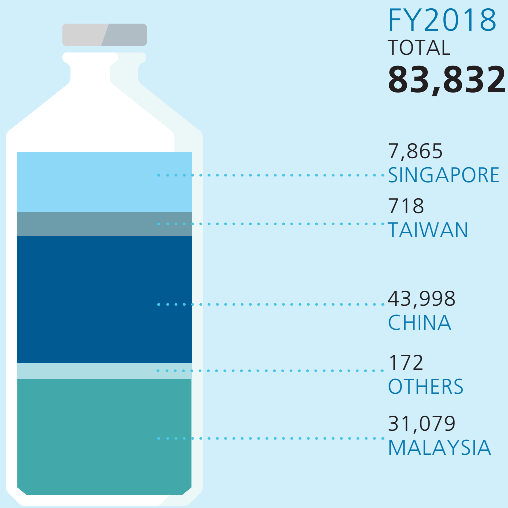
Non-current liabilities of $1.5 million as at 31 December 2018 comprised mainly deferred income tax liabilities of $0.6 million and borrowings of $0.9 million.

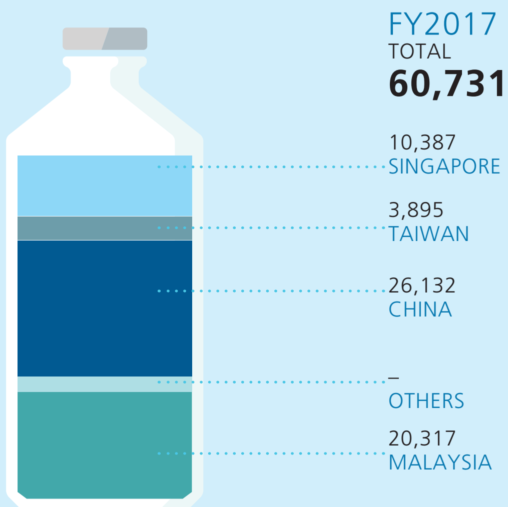
Shareholders' equity increased from $36.5 million in FY2017 to $54.2 million in FY2018.

Net cash used in operating activities was $6.9 million in FY2018, compared to cash outflow of $2.5 million in FY2017.

Net cash used in investing activities was $0.4 million in FY2018, compared to cash outflow of $0.3 million in FY2017. This is mainly due to the purchase of plant and equipment amounting to $0.5 million.

GEOGRAPHICAL REVENUE CONTRIBUTION ($'000)

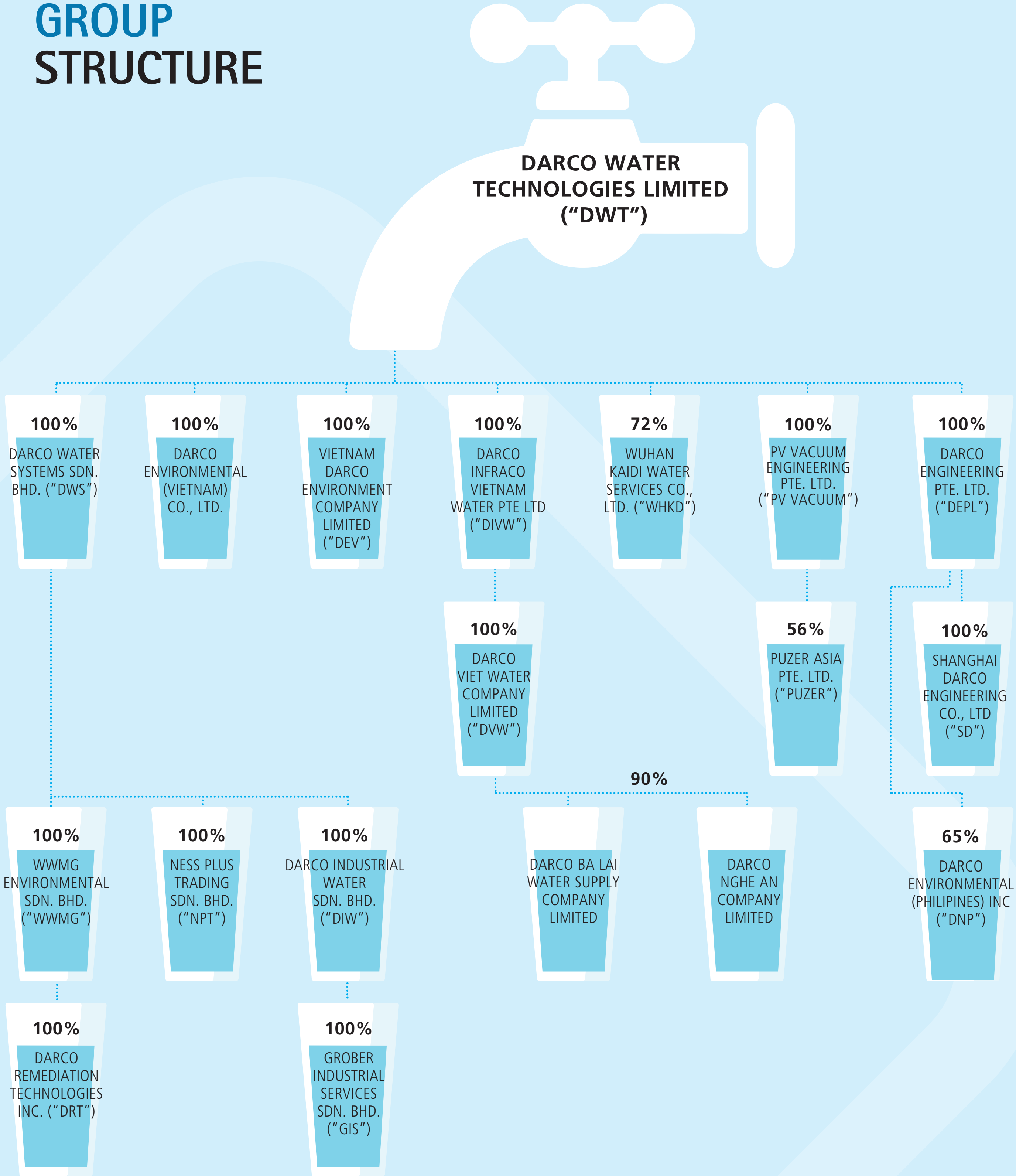




Cash flow from financing activities increased from $12.7 million in FY2017 to $14.8 million in FY2018.

The Group cash and cash equivalents as at 31 December 2018 stands at $22.7 million.

GROUP STRUCTURE



CORPORATE INFORMATION

BOARD OF DIRECTORS

WANG YAOYU
(Executive Chairman)

WANG ZHI
(Non-Executive Deputy Chairman)

THYE KIM MENG
(Managing Director and Chief Executive Officer)

HEATHER TAN CHERN LING
(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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Singapore 048623

AUDITORS

Crowe Horwath First Trust LLP
Public Accountants and Chartered Accountants
Singapore
8 Shenton Way
#05-01, AXA Tower
Singapore 068811

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 2018 ("**FY2018**"), 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.

On 6 August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("**2018 Code**") and accompanying Practice Guidance. The 2018 Code supersedes and replaces the Code and will apply to Annual Reports covering financial years commencing 1 January 2019. The Group will review and set out the corporate practices in place to comply with the 2018 Code for its next Annual Report for the financial year ending 31 December 2019.

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 FY2018. 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 three key board committees namely Audit Committee ("**AC**"), Nominating Committee ("**NC**"), and Remuneration Committee ("**RC**") (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 FY2018, with the Company Secretary in attendance, are as follows:

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

* By Invitation

(1) Mr. Wang Zhi was appointed as the Non-Executive Deputy Chairman 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 FY2018, 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 ("**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 FY2018:–

(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 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	Date of First Appointment	Date of Last Re-Election	AC	NC	RC	IC
Wang Yaoyu	Executive Chairman	13 September 2016	26 April 2018	–	–	–	–
Wang Zhi	Non-Executive Deputy Chairman	3 April 2018	26 April 2018	–	–	–	Chairman
Thye Kim Meng	Managing Director and CEO	13 October 2001	26 April 2018	–	–	–	–
Heather Tan Chern Ling	Executive Director	25 May 2006	26 April 2018	Member	–	–	Member
Tay Lee Chye Lester	Lead Independent Director	23 April 2015	26 April 2018	Member	Chairman	Chairman	–
Tay Von Kian	Independent Director	14 August 2015	26 April 2018	Chairman	Member	Member	–
Oh Chee Sien	Independent Director	13 September 2019	26 April 2018	Member	Member	Member	–

CORPORATE GOVERNANCE REPORT

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

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. Wang Yaoyu 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.

CORPORATE GOVERNANCE REPORT

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.

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.

The Company practices a clear division of responsibilities between the Chairman and the CEO. This ensures that an appropriate balance of power between the Chairman and the CEO and thereby allows for increased accountability and greater capacity of the Board for independent decision making. The Group had on 8 May 2018 separated the posts of the Chairman and CEO. Mr. Wang Yaoyu is the Executive Chairman while Mr. Thye Kim Meng is the Managing Director and 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, 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.

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).

CORPORATE GOVERNANCE REPORT

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 to page 45 of the Annual Report.

Please also refer to the page 46 to page 61 of the Annual Report for the detailed information required pursuant to Rule 720(6) of the Listing Rules.

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 FY2018 as a result of the active participation of each Board member during the meetings. No external facilitator was used during the evaluation process in FY2018.

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 FY2018.

Although the Directors are not evaluated individually, the factors taken into consideration with regards to the re-nomination of Directors for FY2018 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 FY2018.

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 FY2018, 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 34 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 FY2018 is set out below:

Remuneration Bands & Name of Directors	Salaries, including CPF	Variable Bonus	Director's Fees	Total
Between $250,000 to $500,00				
Thye Kim Meng	70%	–	30%	100%
Below $250,000				
Heather Tan Chern Ling	80%	10%	10%	100%
Wang Yaoyu	94%	6%	–	100%
Tay Lee Chye Lester	–	–	100%	100%
Tay Von Kian	–	–	100%	100%
Oh Chee Sien	–	–	100%	100%
Wang Zhi*	100%	–	–	100%

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

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 FY2018 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	31%	45%	24%	100%
Below $250,000				
Thye Kim Fah	95%	5%	–	100%
Teh Chun Sem	86%	14%	–	100%

For FY2018, 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 three (3) top key management personnel (who are not Directors or the CEO) amounted to approximately $530,000.

CORPORATE GOVERNANCE REPORT

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 FY2018 are as follows:

Name of Immediate Family Member	**Salaries, including CPF**	**Variable Bonus**	**Total**
Between $50,000 to $100,000			
Thye Kim Fah	95%	5%	100%
Thye Ze Pin	95%	5%	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.

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.

CORPORATE GOVERNANCE REPORT

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.

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.

CORPORATE GOVERNANCE REPORT

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 FY2018 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 2018.

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.

CORPORATE GOVERNANCE REPORT

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;

- 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; and

- 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.

CORPORATE GOVERNANCE REPORT

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 FY2018, 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 $367,000 for the financial year under review.

In the review of the financial statements for FY2018, 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.

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.

CORPORATE GOVERNANCE REPORT

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 and assesses the independence 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 is independent and 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.

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.

CORPORATE GOVERNANCE REPORT

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.

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 FY2018 in order to conserve cash and to ensure that there are adequate resources for the Company's expansion plans.

CORPORATE GOVERNANCE REPORT

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.

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.

CORPORATE GOVERNANCE REPORT

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.

The aggregate value of interested person transactions entered into during FY2018 is as follows:

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)
Mr Wang Zhi	A refundable deposit of S$1.2 million paid	N/A

Mr Wang Zhi hold 29.5% shareholding in the Company and he is also the Non-Executive Deputy Chairman of the Company.

On 5 November 2018, the Company has announced that it has signed a non-binding Letter of Intent with Mr. Wang Zhi, or largely known as Robert Wang in respect of a proposed investment in a Build-Operate-Transfer Gaoyi Domestic Waste Water Treatment Project, which holds a 30-year concession on a Waste Water Treatment Plant.

A refundable deposit of RMB6 million (approximately S$1.2 million) has been made to Mr. Wang Zhi as part of the purchase consideration for the acquisition of a sewage treatment asset in China.

The acquisition is an "interested person transaction" under Chapter 9 of the Listing Rules and will be subject to shareholders' approval. The Company will convene a shareholders' meeting and issue a circular to shareholders for this purpose in due course.

CORPORATE GOVERNANCE REPORT

USE OF PROCEEDS FROM PLACEMENT

Pursuant to the share placements to Sofos Placement and RS Placement and Mr. Wang Zhi, which were completed on 8 February 2018, 21 March 2018 and 23 March 2018 respectively, the Company received net proceeds from the issuance of new shares of approximately $20,732,000 ("**Placements**"), after deducting the necessary fees and expenses associated with the placements.

	Engineering contracts and business expansion	**Funding new projects, investments in environmental relation infrastructure projects and other investments**	**Working Capital**	**Total Funds received/ used**
	$	**$**	**$**	**$**
Funds received				
Sofos Placement	–	1,470,000	630,000	2,100,000
RS Placement	–	630,000	270,000	900,000
Wang Zhi Placement	5,397,600	12,594,400	–	17,992,000
Share issue expenses	(59,100)	(181,900)	(19,000)	(260,000)
	5,338,500	14,512,500	881,000	20,732,000
Funds used				
Infrastructure projects	–	(3,083,600)	–	(3,083,600)
Engineering, Procurement and Construction ("**EPC**") business expansion in China	(868,800)	–	–	(868,800)
Business expansion – Pneumatic Waste Conveyance System	(1,000,000)	–	–	(1,000,000)
Total	(1,868,800)	(3,083,600)	–	(4,952,400)
Net Balances	**3,469,700**	**11,428,900**	**881,000**	**15,799,600**

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
Wang Yaoyu	Degree of Technology Power Plant and Power System, Hefei University of Technology	Executive Chairman	Board Chairman	13 September 2016	26 April 2018	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	26 April 2018	Nil	Nil
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	Managing Director and CEO	Board Member	13 October 2001	26 April 2018	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	26 April 2018	Nil	Nil

CORPORATE GOVERNANCE REPORT

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
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 2	26 April 2018	• 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	26 April 2018	Nil	Nil
Oh Chee Sien	Bachelor of Accountancy, Nanyang Technological University	Independent Director	Board Member, Member of AC, NC and RC	13 September 2016	26 April 2018	Nil	Moya Holdings Asia Limited

CORPORATE GOVERNANCE REPORT

Information for the Directors who are retiring and being eligible, offer themselves for re-election at the forthcoming AGM pursuant to Rule 720(6) of the Listing Manual of the SGX-ST:

	Name of Director						
Details	**Wang Yaoyu**	**Wang Zhi**	**Thye Kim Meng**	**Heather Tan Chern Ling**	**Tay Lee Chye Lester**	**Tay Von Kian**	**Oh Chee Sien**
Date of Appointment	13 September 2016	3 April 2018	13 October 2001	25 May 2005	23 April 2015	14 August 2015	13 September 2016
Date of last re-appointment (if applicable)	26 April 2018	26 April 2018	26 April 2018	26 April 2018	26 April 2018	26 April 2018	26 April 2018
Age	62	54	66	38	45	47	43
Country of principal residence	China	Singapore	Singapore	Singapore	Singapore	Singapore	Singapore
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	The Board of the Company has accepted the NC's recommendation, who has reviewed and considered Mr. Wang's contribution as Executive Chairman of the Company.	The Board of the Company has accepted the NC's recommendation, who has reviewed and considered Mr. Wang's contribution as Non-Executive Deputy Chairman of the Company.	The Board of the Company has accepted the NC's recommendation, who has reviewed and considered Mr. Thye's contribution as Managing Director and CEO of the Company.	The Board of the Company has accepted the NC's recommendation, who has reviewed and considered Ms. Tan's contribution as Executive Director of the Company.	The Board of the Company has accepted the NC's recommendation, who has reviewed and considered Mr. Tay is able to exercise judgement as the Lead Independent Director on the corporate affairs of the Group and independent of the Management. The Board considers Mr. Tay to be independent for the purpose of Rule 704(8) of the Listing Rules.	The Board of the Company has accepted the NC's recommendation, who has reviewed and considered Mr. Tay is able to exercise judgement as the Independent Director on the corporate affairs of the Group and independent of the Management. The Board considers Mr. Tay to be independent for the purpose of Rule 704(8) of the Listing Rules.	The Board of the Company has accepted the NC's recommendation, who has reviewed and considered Mr. Oh is able to exercise judgement as the Independent Director on the corporate affairs of the Group and independent of the Management. The Board considers Mr. Oh to be independent for the purpose of Rule 704(8) of the Listing Rules.

CORPORATE GOVERNANCE REPORT

Details	Name of Director						
	Wang Yaoyu	Wang Zhi	Thye Kim Meng	Heather Tan Chern Ling	Tay Lee Chye Lester	Tay Von Kian	Oh Chee Sien
Whether appointment is executive, and if so, the area of responsibility	Executive, Chairman of a major subsidiary of the Darco Group (i.e. Wuhan Kaidi Water Services Co., Ltd.) as part of the Board to help formulate strategic direction and policy and responsible for Profit and Loss of a major subsidiary.	Non-Executive	Executive, responsible for the general management, overall strategic planning and direction of the Group.	Executive, responsible for fundraising related matters including strategic planning for the Group, provides support for the development and implementation of the Company's governance practices, as well as audit related matters.	Non-Executive	Non-Executive	Non-Executive
Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)	Executive Chairman	Non-executive Deputy Chairman and Chairman of Investment Committee	Managing director and CEO	Executive director, Member of AC and Member of Investment Committee	Independent director, Chairman of NC and RC and Member of AC	Independent director, Chairman of AC and Member of NC and RC	Independent director, Member of AC, NC and RC
Professional qualifications	Degree of Technology Power Plant and Power System, Hefei University of Technology	Bachelor Degree, Chemical Engineering Department, Nanchang Aeronautical Engineering Institute	• Bachelor of Science (Honours) in Mechanical Engineering from Polytechnic of Wolverhampton, England • Bachelor of Law (Honours) from University of London, United Kingdom	Bachelor of Engineering, Chemical (1st Class Honours) from The University of Melbourne, Australia	Bachelor of Accountancy, Nanyang Technological University	Bachelor of Commerce (Accounting) with Bachelor Of Laws degree from Macquarie University	Bachelor of Accountancy, Nanyang Technological University

CORPORATE GOVERNANCE REPORT

Details	Name of Director						
	Wang Yaoyu	Wang Zhi	Thye Kim Meng	Heather Tan Chern Ling	Tay Lee Chye Lester	Tay Von Kian	Oh Chee Sien
Working experience and occupation(s) during the past 10 years	– Year 2002 to Year 2009, Mr. Wang worked for Wuhan Kaidi Water Service Company. His last position held in Wuhan Kaidi Water Service Company was Assistant Chairman – March 2005 to January 2009 – Executive Director of Asia Water Technology Ltd – July 2010 to September 2014 – Director of SIIC Environment Holdings (Wuhan) Co.,Ltd. – December 2014 to Present – Chairman of Wuhan Kaidi Water Service Company	– September 2008 to Current – Chairman/ Chief Executive Officer/ President/ Director, Future Development Group Limited – September 2008 to Current – Chairman/ Chief Executive Officer/ President/ Director, Future International Investment Limited – September 2008 to Current – Chairman/ Chief Executive Officer/ President/ Director, Future Holdings Group Limited	– October 2001 to Current – Director/ Managing Director and CEO, Darco Water Technologies Limited	– May 2006 to Current – Director, Darco Water Technologies Limited	– 2007 to present – Chief Executive Officer of Rockstead Capital Group – 2004 to 2007 – Chief Financial Officer of Asia Water Technology Ltd.	– April 2018 to Present – Vice President, Haitong – September 2017 to March 2018 – Chief Financial Officer, Naumi Hotels – June 2016 to March 2018 – Vice President Finance, Inteco Education Pte Ltd – May 2015 to May 2016 – Associate Director of PrimePartners Corporate Finance Pte Ltd – September 2013 to May 2015 – Director, Corporate Finance of Phillip Securities Pte Ltd	– July 2014 to June 2016 – Chief Financial Officer of Moya Holdings Asia Limited – May 2013 to November 2013 – Director of Business Development and Corporate Finance of Tritech Group Limited – April 2009 to May 2013 – Chief Financial Officer of Moya Holdings Asia Limited – September 2007 to April 2009 – Financial Controller of Moya Holdings Asia Limited

CORPORATE GOVERNANCE REPORT

Details	Name of Director						
	Wang Yaoyu	**Wang Zhi**	**Thye Kim Meng**	**Heather Tan Chern Ling**	**Tay Lee Chye Lester**	**Tay Von Kian**	**Oh Chee Sien**
Working experience and occupation(s) during the past 10 years (cont'd)						– April 2011 to August 2013 – Team Head, Corporate Finance of HL Bank Singapore Branch – December 2008 to April 2011 – Associate Director, Corporate Finance of United Overseas Bank Limited – September 2006 to November 2008 – Vice President, Corporate Finance of DMG & Partners Securities Pte. Ltd.	– August 2006 to September 2007 – Finance Manager, Infocomm Development Authority of Singapore

CORPORATE GOVERNANCE REPORT

Details	Name of Director						
	Wang Yaoyu	**Wang Zhi**	**Thye Kim Meng**	**Heather Tan Chern Ling**	**Tay Lee Chye Lester**	**Tay Von Kian**	**Oh Chee Sien**
Working experience and occupation(s) during the past 10 years (cont'd)							
Shareholding interest in the listed issuer and its subsidiaries	Mr. Wang is holding 25% equity interest of Wuhan Liankai Investment Company. Wuhan Liankai Investment Company owns 13% equity interest of Wuhan Kaidi Water Service Company and 25.58% equity interest of the Company	Mr. Wang holds 27,680,000 ordinary shares (29.5%) in the share capital of the Company.	Mr. Thye holds 7,155,485 ordinary shares (7.63%) in the share capital of the Company.	Ms. Tan holds 8,160 ordinary shares (0.014%) in the share capital of the Company.	Nil	Nil	Nil
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	Nil	Nil	Nil	Nil	Nil	Nil	Nil

CORPORATE GOVERNANCE REPORT

Details	Name of Director						
	Wang Yaoyu	Wang Zhi	Thye Kim Meng	Heather Tan Chern Ling	Tay Lee Chye Lester	Tay Von Kian	Oh Chee Sien
Conflict of interest (including any competing business)	Nil	Mr. Wang owns 100% equity in Orient Harmony Holdings Limited, a holdings company of Salcon Linyi (HK) Limited, which in turn owns 60% equity interest in a project company operating a 150 mld potable water supply project in Shandong, China. He also owns 100% equity in Obor Investment Holdings Pte Ltd which is the holding company for Hydroring Pte Ltd and Ultraco Greentech Pte Ltd, which in turn owns an aggregate of 100% equity interest in the project company operating a 50 mld potable water supply and a 20 mld wastewater treatment project in Zan Huang Country, Hebei, China.	Nil	Nil	Nil	Nil	Nil

CORPORATE GOVERNANCE REPORT

Details	Name of Director						
	Wang Yaoyu	**Wang Zhi**	**Thye Kim Meng**	**Heather Tan Chern Ling**	**Tay Lee Chye Lester**	**Tay Von Kian**	**Oh Chee Sien**
Conflict of interest (including any competing business) (cont'd)		Mr. Wang is actively pursuing investment opportunities in water supply and wastewater treatment projects in China in relation to his business. To mitigate any potential conflicts of interest that may arise in relation to his appointment as a Director of the Company, Mr. Wang has undertaken to (i) fully disclose any conflict of interest to the Board; (ii) not pursuing any investments brought before the Investment Committee; and (iii) recusing from participating in the Board's and Investment Committee's proceedings, deliberations and decision-making, where that conflict may indicate it is appropriate to do so and abstaining from voting on that matter.					

CORPORATE GOVERNANCE REPORT

Details	Name of Director						
	Wang Yaoyu	**Wang Zhi**	**Thye Kim Meng**	**Heather Tan Chern Ling**	**Tay Lee Chye Lester**	**Tay Von Kian**	**Oh Chee Sien**
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Other Principal Commitments Including Directorships	**Past (for the last 5 years)** Nil. **Present** Director of: – Wuhan Liankai Investment Co., Ltd – Wuhan Kaidi Water Services Co., Ltd.	**Past (for the last 5 years)** Director of: – DSG Environment Shandong Limited – Yunnan Water International Limited – Future Investment Enterprise Limited – Hui Ze Water Services (Qing Zhou) Co., Ltd – Hui Ze Water Services (Sishui) Co., Ltd – Hui Ze Water Services (He Ze) Co., Ltd – Hebei Kay Yuan Cheng He Water Services Engineering Co., Ltd – Qing Zhou Dong Hui Eco-tourism Co., Ltd – Utraco Greentech Pte Ltd – Hydroring Pte Ltd.	**Past (for the last 5 years)** Nil. **Present** Director of: – Darco Engineering Pte Ltd – Darco Infraco Vietnam Water Pte. Ltd.	**Past (for the last 5 years)** Nil. **Present** Director of: – Integritas Fiducia Pte. Ltd. – Darco Infraco Vietnam Water Pte. Ltd.	**Past (for the last 5 years)** Director of: – Chabridge Technology Pte. Ltd. – Forest Property Investment Pte. Ltd. – Grand Investment Fund Pte. Ltd. – Grandeur Associates & Co Pte. Ltd. – Leibo Mingzhu Clean Energy Pte. Ltd. – Union Linker International Investment Pte. Ltd. – United Power Technology Pte. Ltd. – WH-Water Investment Pte. Ltd. – RS Asset Management Pte. Ltd. – Yokeshire International Limited – Grand INVSMT Ltd	**Past (for the last 5 years)** Nil. **Present** Director of: – T. K. Tay (Holdings) Sdn Bhd – Serep Pty Ltd (Australia) – Weldan Marine Services Sdn Bhd	**Past (for the last 5 years)** Director of: – Dayen Acqua-Blu Technologies Pte. Ltd. (Struck off) – Pizhou Water Holdings Pte Ltd – Dayen Water Engineering (Beijing) Ltd – Shenyang Shenfei Dayen Co. Limited – Dayen Investment Holdings Pte Ltd – Moya Asia Pte Ltd – Moya Indonesia Holdings Pte Ltd **Present** Director of: – Aqua-Terra Logistics Pte Ltd – Aqua-Terra Oilfield Equipment & Services Pte Ltd – Aqua-Terra Supply Co Limited – Globaltech Offshore & Marine Pte Ltd

CORPORATE GOVERNANCE REPORT

Details	Name of Director						
	Wang Yaoyu	Wang Zhi	Thye Kim Meng	Heather Tan Chern Ling	Tay Lee Chye Lester	Tay Von Kian	Oh Chee Sien
Other Principal Commitments Including Directorships (cont'd)		**Present** Director of: – Future Development Group Limited – Future International Investment Limited – Future Holdings Group Limited – East Sun International Investment Limited – Pan Asia International (Qing Zhou) Co., Limited – Orient Harmony Holdings Limited – Salcon Linyi (HK) Limited – Chelsea Sky Group Limited – East Sun International Limited – Rich Fareast Holdings Limited – Future International Development Group Limited – Xinjang Xiang Fei Hu Flower Manor Co., Ltd – Xinjang Xiang Fei Hu Biotechnology Co., Ltd			**Present** Director of: – Rockstead Capital Pte Ltd – 1Rockstead GIP Fund Limited – 1Rockstead GIP Fund 2 Limited – Rockstead Ventures Limited – Peinture Singapore Pte. Ltd. – Rockstead Fixed Income Fund Ltd – Ming Stone (Singapore) Pte Ltd – Rockstead Fixed Income Fund II Ltd.		– Indo Synergy Pte Ltd – KS Distribution Pte Ltd – KS Flow Control Pte Ltd – KS Marinehub Pte Ltd – Oceanic Offshore Engineering Pte Ltd – Orient Marine Pte Ltd – SSH Corporation Ltd – Raymonds Supply Company Limited – KS Equipment (Shanghai) Limited – KS Distribution (Shanghai) Ltd. – Raymonds Supply Changhai International Co., Ltd – Raymonds Supply (Shenzhen) Co., Ltd. – Dalian F.T.Z. Sin Soon Huat International Trade Co., Ltd.

CORPORATE GOVERNANCE REPORT

Details		Name of Director						
		Wang Yaoyu	**Wang Zhi**	**Thye Kim Meng**	**Heather Tan Chern Ling**	**Tay Lee Chye Lester**	**Tay Von Kian**	**Oh Chee Sien**
Other Principal Commitments Including Directorships (cont'd)			– Qing Zhou Dong Hui Eco-tourism Co., Ltd – Jiang Su HuiZe Energy Technology Co., Ltd – Dragon Spring Technology Development (TianChang) Co., Ltd – Greentech Energy Solutions Pte Ltd – Obor Investment Holdings Pte. Ltd. – Chengho Cultural & Tourism Corporation Pte. Ltd.					– Aqua-Terra Supply (Tianjin) Oilfield Equipment Trading Co., Ltd. – PT Suryasarana Hidupjaya – PT KSD Indonesia – PT AT Oceanic Offshore – KS Distribution (Thailand) Limited – KS Distribution (Vietnam) Co. Ltd. – KS Distribution (Malaysia) Sdn Bhd.
The general statutory disclosures of the Directors are as follows:								
a.	Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?	No	No	No	No	No	No	No

CORPORATE GOVERNANCE REPORT

Details		Name of Director						
		Wang Yaoyu	**Wang Zhi**	**Thye Kim Meng**	**Heather Tan Chern Ling**	**Tay Lee Chye Lester**	**Tay Von Kian**	**Oh Chee Sien**
b.	Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	No	No	No	No	No	No	No
c.	Whether there is any unsatisfied judgment against him?	No	No	No	No	No	No	No
d.	Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?	No	No	No	No	No	No	No

CORPORATE GOVERNANCE REPORT

Details		Name of Director						
		Wang Yaoyu	Wang Zhi	Thye Kim Meng	Heather Tan Chern Ling	Tay Lee Chye Lester	Tay Von Kian	Oh Chee Sien
e.	Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	No	No	No	No	No	No	No
f.	Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	No	No	No	No	No	No	No

CORPORATE GOVERNANCE REPORT

Details		Name of Director						
		Wang Yaoyu	**Wang Zhi**	**Thye Kim Meng**	**Heather Tan Chern Ling**	**Tay Lee Chye Lester**	**Tay Von Kian**	**Oh Chee Sien**
g.	Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	No	No	No	No	No	No	No
h.	Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	No	No	No	No	No	No	No
i.	Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	No	No	No	No	No	No	Yes[1]

CORPORATE GOVERNANCE REPORT

Details		Name of Director						
		Wang Yaoyu	Wang Zhi	Thye Kim Meng	Heather Tan Chern Ling	Tay Lee Chye Lester	Tay Von Kian	Oh Chee Sien
j.	Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:–	No	No	No	No	No	No	No
	i. any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	No	No	No	No	No	No	No
	ii. any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	No	No	No	No	No	No	No
	iii. any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or	No	No	No	No	No	No	No

CORPORATE GOVERNANCE REPORT

Details		Name of Director						
		Wang Yaoyu	Wang Zhi	Thye Kim Meng	Heather Tan Chern Ling	Tay Lee Chye Lester	Tay Von Kian	Oh Chee Sien
	iv. any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?	No	No	No	No	No	No	No
k.	Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	No	No	No	No	Yes[2]	No	No
Information required **Disclosure applicable to the appointment of Director only.**								
Any prior experience as a director of an issuer listed on the Exchange?		Yes	No	No	No	Yes	No	Yes

CORPORATE GOVERNANCE REPORT

Details	Name of Director						
	Wang Yaoyu	Wang Zhi	Thye Kim Meng	Heather Tan Chern Ling	Tay Lee Chye Lester	Tay Von Kian	Oh Chee Sien
If yes, please provide details of prior experience.	March 2005 to January 2009 – Executive Director of Asia Water Technology Ltd	N/A	N/A	N/A	2009 – Director of ASX-Listed – Rockstead Financial Services Ltd. (RKS-ASX)	N/A	– 2 May 2013 to 30 June 2014 – Non-Executive Director and Non-Independent Director of Moya Holdings Asia Limited – 1 July 2014 to 17 May 2015 – Executive Director of Moya Holdings Asia Limited
If no, please state if the director has attended or will be attending training on the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange.	N/A	Mr. Wang will be attending courses and trainings in respect of roles and responsibilities of a Director of a listed issuer.	Mr. Thye has been appointed to the Board of the Company for 18 years since the date of his first appointment, 13 October 2001. Mr. Thye will be attending courses and trainings in respect of roles and responsibilities of a Director of a listed issuer.	Ms. Heather Tan has attended the training on the roles and responsibilites of a director of a listed issuer as prescribed by the Exchange after her first appointment to the Board of the Company.	N/A	Mr. Tay Von Kian has attended the training orgainised by Singapore Institute of Directors.	N/A

Notes:

1. Moya Asia Limited ("**Moya**") was reprimanded by SGX-ST on 2 April 2009 for certain breaches of provisions in the SGX listing manual and the Commercial Affairs Department conducted investigations on Moya's affairs around the same period. Mr. Oh Chee Sien assisted in the investigations but he was not a party being investigated. Mr. Oh Chee Sien was the FC of Moya and reported to the CFO at the relevant time. He was subsequently appointed as the CFO on 9 April 2009.
2. Mr. Tay Lee Chye Lester was issued warning by MAS for delay to inform and declare as Substantial Shareholder of Asia Power Corporation Ltd within the required 48 hours timeframe, in August 2008.

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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 2018 and the statement of financial position of the Company as at 31 December 2018.

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 71 to 164 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 2018 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:

Wang Zhi (appointed on 3 April 2018)
Wang Yaoyu
Thye Kim Meng
Heather Tan Chern Ling
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 officer 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 2018 or date of appointment	At 31 December 2018	At 1 January 2018 or date of appointment	At 31 December 2018
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
Wang Zhi	-	27,680,000	-	-

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Directors' interests in shares or debentures (Continued)

Mr. Wang Zhi and Mr. Wang Yaoyu, who by virtue of their interests of not less than 20% of the issued capital of the Company prior and subsequently to the new shares issued, are 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 2018 or date of appointment	At 31 December 2018
Wuhan Kaidi Water Services Co., Ltd		
Ordinary shares		
Wang Yaoyu *	30,000,000	-
Wang Zhi	-	36,000,000
Darco Environmental (Philippines) Inc.		
Ordinary shares		
Wang Yaoyu	65,000	-
Wang Zhi	-	65,000
Puzer Asia Pte. Ltd.		
Ordinary shares		
Wang Yaoyu	140,000	-
Wang Zhi	-	140,000

* In addition to the above mentioned deemed interest, Mr. Wang Yaoyu was 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 2018.

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 2019.

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 in, 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 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.

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Share options (Continued)

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

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 2018 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.

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.

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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	**THYE KIM MENG**
Director	Director

4 April 2019

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED

Crowe Horwath First Trust LLP
8 Shenton Way
#05-01 AXA Tower
Singapore 068811
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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 71 to 164, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2018, 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 Singapore Financial Reporting Standards (International) (SFRS(I)) 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 2018 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 year. 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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED (Continued)

Key Audit Matter (Continued)

<table>
<tr><td colspan="2">Revenue recognition using input method
Refer to following notes to the financial statements
~ Note 2 “Significant accounting policy” and “Critical accounting estimates, assumptions and judgement”
~ Note 14 “Revenue”</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>In the Engineered Environmental Systems segment, the Group recognised revenue from its contract revenue over time. Such revenue amounted to $63.7 million for the current financial year, representing 76% of the Group's revenue.

Input method (cost method) is used to estimate the progress to complete the performance obligation, and that 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 impairment loss in onerous contracts.

We focused on this area in view of significant judgements involved in estimating total contract costs, which is susceptible to management bias, and in view of the initial application of the new revenue standard, SFRS(I) 15 Revenue from contracts with customers.</td><td>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 over time are as summarised below:

• Examined significant contract revenue and reviewed them to obtain an understanding of the key terms of the contracts and the contract sum;

• Reviewed management's conclusion that such contracts fulfils over-time recognition criteria in accordance with SFRS(I) 15 and the choice of method in measuring the progress,

• Assessed the design and implementation of the Group's internal controls over the accuracy of allocation of actual costs to the respective contracts;

• 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 those contracts;

• Discussed with management on potential significant costs overruns which may result in provision for onerous contracts; and

• Recalculated management's computation of the progress, and assessed reasonableness against other measurement of progress.

Based on the results of above procedures, we considered that the management judgement in revenue recognition policy for these contracts and in estimating the progress of the completion of performance obligation using input method to be reasonable.

We have also considered the disclosures of the sensitivity of the estimation uncertainty in the financial statements to be appropriate.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED (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 SFRS(I), 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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED (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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED (Continued)

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

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 year and is therefore the key audit matter. 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.

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 2019

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

	Note	Group		Company	
		2018	2017	2018	2017
		$'000	$'000	$'000	$'000
ASSETS					
Non-current assets					
Property, plant and equipment	3	5,176	5,482	-	-
Intangible assets	4	5,666	7,597	-	-
Investment in subsidiaries	5	-	-	14,645	12,210
Deferred tax assets	6	114	82	-	-
Other receivable	8	613	489	-	-
		11,569	13,650	14,645	12,210
Current assets					
Inventories	7	2,997	2,056	-	-
Trade and other receivables	8	68,971	50,089	15,060	8,027
Income tax recoverable		365	144	-	-
Cash and bank balances	9	27,925	17,463	13,577	7,621
		100,258	69,752	28,637	15,648
TOTAL ASSETS		111,827	83,402	43,282	27,858
LIABILITIES					
Current liabilities					
Trade and other payables	10	47,443	36,513	1,985	7,409
Borrowings	11	8,284	7,484	4,000	4,000
Income tax payable		450	757	-	-
		56,177	44,754	5,985	11,409
Non-current liabilities					
Borrowings	11	917	1,284	-	-
Deferred tax liabilities	6	581	875	-	-
		1,498	2,159	-	-
TOTAL LIABILITIES		57,675	46,913	5,985	11,409
NET ASSETS		54,152	36,489	37,297	16,449

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

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

	Note	Group		Company	
		2018	2017	2018	2017
		$'000	$'000	$'000	$'000
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	12	76,766	54,274	76,766	54,274
Other reserves	13 (a)	(3,261)	(3,312)	-	-
Accumulated losses	13 (b)	(24,658)	(22,662)	(39,469)	(37,825)
		48,847	28,300	37,297	16,449
Non-controlling interests	5 (d)(ii)	5,305	8,189	-	-
TOTAL EQUITY		54,152	36,489	37,297	16,449

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 2018
(Amounts in thousands of Singapore dollars ("$'000"))

	Note	2018 $'000	2017 $'000
Revenue	14	83,832	60,731
Cost of sales		(69,874)	(46,125)
Gross profit		13,958	14,606
Other income	15	679	1,267
Distribution expenses		(2,147)	(1,743)
Administrative expenses		(13,117)	(11,921)
(Provision) / Write-back of impairment loss on financial assets	18	(506)	4
Finance costs	16	(585)	(273)
(Loss) / Profit before income tax	18	(1,718)	1,940
Income tax expense	19	(92)	(712)
(Loss) / Profit for the financial year		(1,810)	1,228
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences arising from consolidation		(812)	(206)
Currency translation differences realised through disposal of a subsidiary		-	(5)
Other comprehensive loss, net of tax		(812)	(211)
Total comprehensive (loss) / income for the financial year		(2,622)	1,017
(Loss) / Profit attributable to:			
Equity holders of the Company		(1,441)	611
Non-controlling interests		(369)	617
		(1,810)	1,228
Total comprehensive (loss) / income attributable to:			
Equity holders of the Company		(2,101)	484
Non-controlling interests		(521)	533
		(2,622)	1,017
(Loss) / Earnings per share attributable to equity holders of the Company (cents)	20		
Basic		(1.67)	1.09
Diluted		(1.67)	1.09

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

	Attributable to equity holders of the Company					
	Share capital	Other reserves	Accumulated losses	Total	Non-controlling interests	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1.1.2018 as previously restated	54,274	(3,312)	(22,662)	28,300	8,189	36,489
Adjustments on transition to SFRS(I) 9 (Note 24 (iii))	-	-	(447)	(447)	-	(447)
Balance at 1.1.2018 as restated	54,274	(3,312)	(23,109)	27,853	8,189	36,042
Loss for the financial year	-	-	(1,441)	(1,441)	(369)	(1,810)
Other comprehensive loss for the financial year, net of tax						
- Currency translation differences arising from consolidation	-	(660)	-	(660)	(152)	(812)
Total comprehensive loss for the financial year	-	(660)	(1,441)	(2,101)	(521)	(2,622)
Contributions by and distribution to owners						
Issuance of shares, net (Note 12)	22,492	-	-	22,492	-	22,492
Transfer to statutory reserve (Note 13(a))	-	108	(108)	-	-	-
Total contributions by and distribution to owners	22,492	108	(108)	22,492	-	22,492
Change in ownership interests in subsidiaries						
Acquisition of non-controlling interests without a change in control (Note 5(b))	-	603	-	603	(2,363)	(1,760)
Balance at 31.12.2018	76,766	(3,261)	(24,658)	48,847	5,305	54,152

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

	Attributable to equity holders of the Company					
	Share capital	Other reserves	Accumulated losses	Total	Non-controlling interests	Total
	$'000	$'000	$'000	$'000	$'000	$'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 12)	2,869	-	-	2,869	-	2,869
Transfer to statutory reserve (Note 13(a))	-	146	(146)	-	-	-
Dividend paid (Note 26)	-	-	-	-	(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(e))	-	-	-	-	(1,742)	(1,742)
Balance at 31.12.2017	54,274	(3,312)	(22,662)	28,300	8,189	36,489

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
(Loss) / Profit before income tax		(1,718)	1,940
Adjustments:			
Amortisation of intangible assets	18	1,752	1,741
Depreciation of property, plant and equipment	18	754	932
Gain on disposal of property, plant and equipment	18	(3)	(17)
Loss on disposal of a subsidiary	18	-	19
Property, plant and equipment written off	18	6	8
Reversal of unfavourable contract	15	-	(1,035)
Inventories written off	18	148	33
Provision / (Write-back) of impairment loss on financial assets, net	18	506	(4)
Reversal of payables	15	(128)	-
Interest expenses	16	585	273
Interest income	15	(90)	(24)
Unrealised exchange differences		25	35
Operating profit before working capital changes		1,837	3,901
Inventories		(1,089)	(1,086)
Contract assets / (liabilities)		(4,597)	(78)
Trade and other receivables		(3,900)	(9,398)
Trade and other payables		3,778	4,295
(Placement) / Refund of fixed deposits and bank balances pledged	9	(2,009)	232
Cash used in operations		(5,980)	(2,134)
Income taxes paid		(946)	(318)
Net cash used in operating activities		(6,926)	(2,452)
Cash flows from investing activities			
Purchase of property, plant and equipment	A	(454)	(1,202)
Proceeds from disposal of property, plant and equipment		3	17
Disposal of a subsidiary, net of cash disposed	5 (e)	-	1,355
Loan to a third party		-	(489)
Interest received		90	24
Net cash used in investing activities		(361)	(295)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

	Note	2018 $'000	2017 $'000
Cash flows from financing activities			
Placements monies received in advance		-	4,844
Proceeds from issuance of new shares, by way of cash	12	16,148	3,000
Share issuance cost	12	(260)	(131)
Dividend paid to non-controlling interests		-	(38)
Proceeds from borrowings		3,581	7,041
Repayment of borrowings		(4,285)	(1,676)
Repayment of finance lease liabilities		(43)	(48)
Interest paid		(375)	(273)
Net cash from financing activities		14,766	12,719
Net increase in cash and cash equivalents		7,479	9,972
Cash and cash equivalents at beginning of financial year		15,379	5,494
Effect of exchange rate changes on cash and cash equivalents		(185)	(87)
Cash and cash equivalents at end of financial year	9	22,673	15,379

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:

	2018 $'000	2017 $'000
Property, plant and equipment purchased during the financial year (Note 3)	551	1,202
Less:		
Finance lease liabilities	(97)	-
Cash payment to acquire property, plant and equipment	454	1,202

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(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 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 4 April 2019.

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 (International) (SFRS(I)). The financial statements are presented in Singapore dollars ("$") and all values are recorded to nearest thousand ($'000) as indicated.

The preparation of the financial statements in conformity with SFRS(I)s 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.

For all periods up to and including the year ended 31 December 2017, the financial statements were prepared in accordance with the previous framework, Financial Reporting Standards in Singapore (FRS). These financial statements for the year ended 31 December 2018 are the first set that the Group has prepared in accordance with SFRS(I). Details of first-time adoption of SFRS(I) and application of SFRS(I) 9 and 15 are included in Note 27 to the financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Standards issued but not yet effective

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
SFRS(I) 16 *Leases*	1 January 2019
SFRS(I) INT 23: *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to SFRS(I) 9 Financial Instruments: *Prepayment Features with Negative Compensation*	1 January 2019
Annual Improvements to SFRS(I)s 2015-2017 Cycle	
- 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
Amendments to SFRS(I) 1-19 Employee Benefits: *Plan Amendment, Curtailment or Settlement*	1 January 2019
Amendments to SFRS(I) 1-28 Investments in Associates and Joint Ventures: *Long-term Interests in Associates and Joint Ventures.*	1 January 2019
Amendments to SFRS(I) 3: *Definition of a Business*	1 January 2020
Amendments to SFRS(I) 1-1 and SFRS(I) 1-8: *Definition of Material*	1 January 2020
SFRS(I) 17 *Insurance Contracts*	1 January 2021
Amendments to SFRS(I) 10 Consolidated Financial Statements and SFRS(I) 1-28 Investments in Associates and Joint Ventures: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	To be determined

Except for SFRS(I) 16, 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 SFRS(I) 16 is described below.

SFRS(I) 16 *Leases*

This new standard on leases brings in a new definition of a lease that will be used to identify whether a contract is, or contains, a lease. For leasees, SFRS(I) 16 reforms leasee accounting by introducing a single model similar to the existing finance lease model. Specifically, lessees are required to recognise all leases on their statements of financial position to reflect their rights to use leased assets and the associated obligations for lease payments, with limited exemptions. However, lessor accounting, with the distinction between operating and finance leases, remains largely unchanged.

Implementation of SFRS(I) 16 will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. The standard will affect primarily the Group's accounting for operating leases. The Group apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Standards issued but not yet effective (Continued)

SFRS(I) 16 *Leases* *(Continued)*

As of 31 December 2018, the Group has non-cancellable operating lease commitments of $306,000 (Note 22(ii)), which is an appropriate indicator of the SFRS(I) 16 implementation impact on the Group's consolidated statement of financial position. Of these commitments, approximately $24,000 relate to low-value leases which will be recognised on a straight-line basis as expense in profit or loss.

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Group accounting (Continued)

(i) Subsidiaries (Continued)

(b) Acquisition of businesses (Continued)

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 SFRS(I) 1-39 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.

(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 result 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 2018
(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

(ii) Other intangible assets (Continued)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

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.

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 and liabilities (From 1 January 2018 onwards)

(i) Initial recognition and measurement

Trade receivables are initially recognised when they are originated. Other financial assets and financial liabilities 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.

Trade receivables without financing component is initially measured at the transaction price in accordance with SFRS(I) 15. Other financial assets or financial liabilities are initially recognised at fair value plus, in the case of financial assets or liabilities not at fair value through profit or loss, directly attributable transaction costs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities (From 1 January 2018 onwards) (Continued)

(ii) Classification and subsequent measurement

Financial assets

Financial assets are classified and subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, at the following categories:

- Amortised costs
- Fair value through Other Comprehensive Income (FVOCI) – Debt investments
- FVOCI – Equity investments
- Fair value through profit or loss (FVPL)

Financial assets are not reclassified after initial recognition unless the Group changes its business model for managing financial assets, in which case such reclassification will be applied prospectively from the reclassification date.

Financial assets at amortised costs

Unless designated at FVPL, financial assets are measured at amortised costs if:

- It is held within a business model with an objective to hold the assets to collect contractual cash flows; and
- Its contractual cash flows comprise of solely principal and interest on the principal amount outstanding.

These assets, mainly trade and other receivables which (exclude prepayments, advances to suppliers and GST/VAT receivables), contract assets, cash and cash equivalents, are subsequently measured at amortised costs using the effective interest rate method, which is reduced by impairment losses. Interest income, foreign exchange differences, and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI

Unless designated at FVPL, a debt investment is measured at FVOCI if:

- It is held within a business model with objectives of both collecting contractual cash flows and selling financial assets; and
- Its contractual cash flows comprise of solely principal and interest on the principal amount outstanding.

These assets are subsequently measured at fair value. Interest income calculated on effective interest rate method, foreign exchange differences and impairment are recognised in profit or loss. Other net gains and losses (including changes in fair value) are recognised in OCI. The cumulative amounts in OCI are reclassified to profit or loss upon derecognition.

NOTES TO THE FINANCIAL STATEMENTS

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities (From 1 January 2018 onwards) (Continued)

(ii) Classification and subsequent measurement (Continued)

Equity investments at FVOCI

Unless held-for-trading, the Group may irrevocably elect on initial recognition, on an investment-by-investment basis, to present subsequent changes of fair value of the equity investments in OCI.

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses (including changes in fair value) are recognised in OCI which will never be reclassified to profit or loss.

Financial assets at FVPL

All financial assets not at amortised cost or FVOCI as described above are measured at fair value through profit or loss. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI to be measured at FVPL, if doing so eliminates or significantly reduce accounting mismatch that would otherwise arise.

Financial assets held for trading or are managed and whose performance is evaluated on a fair value basis would be mandatorily measured at FVPL.

These assets are subsequently measured at fair value. Net gains or losses, including any interest income or dividend income are recognised in profit or loss.

As at the reporting date, the Group does not have other categories of financial assets other than financial assets at amortised cost.

Financial liabilities

Financial liabilities are subsequently measured at amortised costs unless it is held for trading (including derivative liabilities), or designated as financial liabilities at FVPL on initial recognition to significantly reduce accounting mismatch or when a group of financial liabilities are managed whose performance is evaluated on a fair value basis.

Financial liabilities at amortised costs are subsequently measured at amortised costs using the effective interest rate method. Interest expense and foreign exchange differences are recognised in profit or loss. These financial liabilities mainly comprise trade and other payables (excludes advances and provision for unutilised leave), contract liabilities and borrowings.

Financial liabilities at FVPL are measured at fair value with net gains and losses (including interest expense) recognised in profit or loss. Directly attributable transaction costs are recognised in profit or loss as incurred.

As at the reporting date, all of the Group's financial liabilities are at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities (From 1 January 2018 onwards) (Continued)

(iii) Derecognition

Financial assets

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 or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial assets. On derecognition of a financial asset in its entirety, the difference between the carrying amount measured at the derecognition date and the sum of the consideration received 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.

Financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires. The Group also derecognise a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount of the financial liabilities extinguished, or transferred and the consideration paid (including non-cash transferred or liabilities assumed) is recognised in profit or loss.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Impairment of financial assets (From 1 January 2018 onwards)

The Group applies impairment model in SFRS(I) 9 to measure the Expected Credit Losses (ECL) of the following categories of assets:

- Financial assets at amortised costs (including trade and other receivables and cash and cash equivalents)
- Contract assets (determined in accordance with SFRS(I) 15)
- Debt investments at FVOCI
- Intragroup financial guarantee contracts

As at the reporting date, the Group does not have other categories of financial assets except for financial assets at amortised costs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (From 1 January 2018 onwards) (Continued)

ECLs are probability-weighted estimates of credit losses, which are measured at the present value of all cash shortfalls (difference between the cash flows due to the Group in accordance with the contracts and the cash flows that the Group expects to receive), discounted at effective interest rate of the financial asset. The expected cash flows include cash flows from the sale of collaterals held, if any, or other credit enhancements that are integral to the contractual terms.

Simplified approach

The Group applies simplified approach to all trade receivables and contract assets. Impairment loss allowance is measured at life time ECL, which represents ECLs that result from all possible default events over the expected life of a financial instrument ('Life-time ECL').

The Group have established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to those customers and the economic environment as well as uses qualitative and quantitative information like geographical location, profile of customers and historical repayment trends to group debtors with similar characteristics for purposes of ECL assessment by using probability of default from external rating agencies and historical loss rates, where applicable.

General approach

The Group applies general approach on all other financial instruments and financial guarantee contracts, and recognise a 12-month ECL on initial recognition. 12-months ECL are ECLs that result from possible default events within 12 months after the reporting date or up to the expected life of the instrument, if shorter.

Impairment loss allowance or reversals are recognised in profit or loss. Loss allowance on financial assets at amortised cost and contract assets are deducted from the gross carrying amount of those asset. Loss allowance on debt investments at FVOCI are recognised in OCI, and does not reduce the carrying amount of the financial assets.

<u>Significant increase in credit risk (Stage 2)</u>
For credit exposures for which there has been a significant increase in credit risk since initial recognition, impairment loss allowance is measured at life-time ECL. When a financial asset is determined to have a low credit risk at reporting date, the Group assumes that there has been no significant increase in credit risk since initial recognition. For other cases, the Group uses reasonable and supportable forward-looking information available without undue cost or effort to determine, at each reporting date, whether there is significant increase in credit risk since initial recognition. In assessing whether there has been significant increase in credit risks, the Group takes into account factors such as:

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the debtor's ability to meet its debt obligations
- actual or expected significant adverse change in the regulatory, economic, or technological environment that are expected to cause a significant change in the debtor's ability to meet its debt obligations
- an actual or expected significant change in the operating results of the debtors

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

If credit risk has not increased significantly since initial recognition or if the credit quality improves such that there is no longer significant increase in credit risk since initial recognition, loss allowance is measured at 12-month ECL.

NOTES TO THE FINANCIAL STATEMENTS

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (From 1 January 2018 onwards) (Continued)

Definition of default
The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligation in full, without recourse by the Group; or
- The financial asset is more than 90 days past due, unless otherwise indicated in credit risk note (Note 24 (iii)).

The Group considers a contract asset to be in default when the customer is unlikely to pay the contractual obligations to the Group in full without recourse by the Group.

Credit-impaired (Stage 3)
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy
The Group write off the gross carrying amount of a financial assets to the extent that there is no realistic prospect of recovery, for example when the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the Group.

Financial assets (Before 1 January 2018)

(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.

NOTES TO THE FINANCIAL STATEMENTS

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Before 1 January 2018) (Continued)

(ii) Subsequent measurement (Continued)

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.

(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 (Before 1 January 2018)

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.

NOTES TO THE FINANCIAL STATEMENTS

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Before 1 January 2018) (Continued)

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.

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.

Financial liabilities (Before 1 January 2018)

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Provision for onerous contracts on uncompleted contracts is recognised immediately in profit or loss when it is determinable.

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.

Financial guarantee contracts are initially measured at fair value plus transaction costs and subsequently measured at the higher of:

(a) premium received on initial recognition less the cumulative amount of income recognised in accordance with the principles of SFRS(I) 15; and

(b) the amount of expected loss computed using the impairment methodology under SFRS(I) 9.

Prior to 1 January 2018, if it is probable that Company need to reimburse the banks, the financial guarantee liabilities are subsequently measured at the higher of the amount initially recognised less amortisation and the expected amount payable to the banks.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2005, the date of inception is deemed to be 1 January 2005 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.

(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 from contracts with customers

The Group 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, at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Unless otherwise mentioned, the Group concludes that it is acting as a principal in the provision of goods or services in its contracts with customers.

NOTES TO THE FINANCIAL STATEMENTS

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

(a) Sale of goods

Revenue from sale of goods is recognised upon transfer of control to the customers usually at the point in time when the goods have been delivered to customers. The Group normally invoices the customers upon delivery of the goods with 30 to 120 days credit term.

(b) Revenue from contract revenue - Engineered Environmental Systems

Revenue from contract revenue is recognised over time as it creates or enhances assets controlled by the customers. The progress of completion is measured by reference of contract costs incurred in proportion to the total estimated contract costs for each contract. Management considers that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under SFRS(I) 15. Costs that are not related to the contracts or do not contribute to the progress of satisfying the performance obligation are excluded when calculating the progress, and are expensed as incurred.

Progress billing to customers are based on milestone/ payments schedule set out in the contracts. When the value of revenue recognised exceeds payments received from the customers, the Group recognises the difference as a contract asset. A contract liability is recognised in the reverse situation.

Progress billing to customers are based on milestone/ payments schedule set out in the contracts. When the value of revenue recognised exceeds payments received from the customers, the Group recognises the difference as a contract asset. A contract liability is recognised in the reverse situation.

The incremental costs of obtaining the contract, mainly sales commission, is capitalised if the Group expects to recover those costs. The tender costs are expensed out as incurred. The Group uses the practical expedient to recognise incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset would have been one year or less. For costs to fulfil the contracts not within the scope of other SFRS(I), the Group capitalise the costs as contract costs assets only if (a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify; (b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (c) the costs are expected to be recovered. Costs that does not fulfil the above criteria is expensed immediately as incurred.

Capitalised contract costs are amortised on a systematic basis that is consistent with the revenue recognised. An impairment loss is recognised in profit or loss to the extent that the carrying amount of capitalised contract costs exceeds the expected remaining consideration (net of direct costs to be incurred).

Allowance is made where necessary to account for onerous contracts. To determine the total costs, the Group monitors and reviews constantly the progress of contracts taking into consideration all inputs from both internal project team and external customers. The review includes evaluating any potential risks and factors which may affect the timely completion of the contracts. The review also includes review of total budgeted costs whereby both actual costs incurred and future costs to complete are critically examined.

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

Revenue from rendering of servicing and maintenance support services are recognised over time on a straight-line basis for contracts with fixed rate per month as these represent series of repetitive services. When the service contracts provides fixed rate per service or visit, the revenue is recognised on invoiced value per month as it represents an amount that corresponds directly with the value to the customer of the Group's performance completed to date, as allowed by practical expedient in SFRS(I) 15.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other 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.

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

Foreign subsidiaries
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 2018
(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 2018
(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).
(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(a) Contract revenue – measuring progress

The Group recognise revenue from contract revenue over time using input method. The progress is measured by reference to the contract costs incurred to date to the estimated total costs for the contract. Total transaction price may contain variable consideration such as liquidated damages or unpriced contract modifications. Significant assumptions are required to estimate the total contract costs that will affect the measure of progress towards complete satisfaction of the performance obligations; and to estimate the variable consideration that is not constrained. In making these estimates, management relied on past experiences and the knowledge of the project engineers.

The carrying amounts of contract assets and contact liabilities arising from contract revenue as at 31 December 2018 are disclosed in Note 14(b).

If the estimated total contract costs of major contracts increase/decrease by 5% from management's estimates, the Group's revenue will decrease/increase by $2,400,000 (2017: $1,483,000)

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(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)

(b) Impairment of non-financial assets

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.

(c) Impairment of financial assets

Impairment allowance for financial assets measured at amortised costs are applied using the ECL model, which requires assumptions of risk of default and expected loss rates. The Group uses judgement in making these assumptions and determining key inputs to the impairment calculation, taking into account the Group's past history, existing market conditions as well as forward-looking information relating to industry, market development and macroeconomic factors. Expected loss rate is based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, geographical location, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. The key assumptions and inputs used are disclosed in Note 24(iii).

(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 2018 amounted to $365,000 and $450,000 (2017: $144,000 and $757,000) respectively.

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 2018, 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 $58,000 (2017: $50,000) and $595,000 (2017: $882,000) respectively on the basis that the concessionary tax rate will still be available at the timing of reversal of the temporary differences.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
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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 – unrecognised:

The Group and Company have not recognised deferred tax assets relating to tax losses of approximately $10,379,000 and $4,074,000 (2017: $8,069,000 and $3,137,000) 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 $2,020,000 (2017: $1,570,000) would reduce the Group's loss for the financial year. (2017: increase the 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 2018, 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.

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

Revenue recognition on contract revenue

The Group has assessed its contracts in EE system as a single performance obligation due to the inter-dependence of services provided in these contracts.

Significant judgement is required in determining whether the performance obligations are distinct. Such considerations include the Group's assessment of whether the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customers and the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contracts.

For contracts with variable considerations (such as liquidated damages and discounts), the Group has applied judgement in determining the transaction price for the recognition of revenue. Such judgement includes assessment of the evaluation of any potential risks and factors which may affect the timely completion of the project as well as the quality of the output delivered to the customer.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

3. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold lands	Freehold buildings	Leasehold lands and buildings	Renovations	Construction in progress	Motor vehicles	Plant and equipment	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost								
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(e))	(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
As at 1.1.2018	270	917	3,108	698	194	1,194	2,708	9,089
Additions	-	-	-	3	9	151	388	551
Transfers	-	-	-	-	(47)	-	47	-
Disposals	-	-	-	-	-	(10)	(1)	(11)
Written off	-	-	-	-	-	-	(322)	(322)
Currency translation differences	1	2	(88)	(10)	1	(11)	(13)	(118)
As at 31.12.2018	271	919	3,020	691	157	1,324	2,807	9,189

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

3. **PROPERTY, PLANT AND EQUIPMENT (Continued)**

Group (Continued)	Freehold lands	Freehold buildings	Leasehold lands and buildings	Renovations	Construction in progress	Motor vehicles	Plant and equipment	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Accumulated depreciation								
As at 1.1.2017	-	345	59	230	-	606	3,290	4,530
Charge for the financial year (Note 18)	-	231	128	40	-	165	368	932
Disposal of a subsidiary (Note 5 (e))	-	(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
As at 1.1.2018	-	264	189	275	-	665	2,214	3,607
Charge for the financial year (Note 18)	-	21	221	63	-	215	234	754
Disposals	-	-	-	-	-	(10)	(1)	(11)
Written-off	-	-	-	-	-	-	(316)	(316)
Currency translation differences	-	2	(10)	(1)	-	(7)	(5)	(21)
As at 31.12.2018	-	287	400	337	-	863	2,126	4,013

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

3. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)	Freehold lands	Freehold buildings	Leasehold lands and buildings	Renovations	Construction in progress	Motor vehicles	Plant and equipment	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Accumulated impairment losses								
As at 1.1.2017	1,132	255	-	-	-	-	-	1,387
Disposal of a subsidiary (Note 5 (e))	(1,127)	(253)	-	-	-	-	-	(1,380)
Currency translation differences	(5)	(2)	-	-	-	-	-	(7)
As at 31.12.2017, 1.1.2018 and 31.12.2018	-	-	-	-	-	-	-	-
Net carrying amount								
As at 31.12.2018	271	632	2,620	354	157	461	681	5,176
As at 31.12.2017	270	653	2,919	423	194	529	494	5,482

Assets held under finance leases

During the financial year, the Group had acquired motor vehicles with an aggregate amount of $97,000 by means of finance lease.

The carrying amount of motor vehicles held under finance leases at the reporting date is $158,000 (2017: $96,000). Leased assets are pledged as security for the related finance lease liabilities (Note 11).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

3. PROPERTY, PLANT AND EQUIPMENT (Continued)

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 $3,523,000 (2017: $3,842,000) are mortgaged to the banks in Malaysia and The People's Republic of China (2017: Malaysia and The People's Republic of China) to secure the Group's bank loans and facilities (Note 11).

The properties held by the Group as at 31 December 2018 and 31 December 2017 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. 6546, 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. 6547, 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	Leasehold land and building	63,415	1,494	Ending on 11 March 2061	4-storey office and warehouse

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
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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 1.1.2017	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
Balance at 1.1.2018	924	4,468	5,171	142	10,705
Currency translation differences	-	(156)	(176)	(5)	(337)
Balance at 31.12.2018	924	4,312	4,995	137	10,368
Accumulated amortisation and impairment losses					
Balance at 1.1.2017	(19)	(479)	(830)	(29)	(1,357)
Amortisation for the financial year (Note 18)	-	(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)
Balance at 1.1.2018	(19)	(1,117)	(1,897)	(75)	(3,108)
Amortisation for the financial year (Note 18)	-	(634)	(1,075)	(43)	(1,752)
Currency translation differences	-	57	96	5	158
Balance at 31.12.2018	(19)	(1,694)	(2,876)	(113)	(4,702)
Net carrying amount					
As at 31.12.2018	905	2,618	2,119	24	5,666
As at 31.12.2017	905	3,351	3,274	67	7,597

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

4. INTANGIBLE ASSETS (Continued)

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

	Group	
	2018	2017
	$'000	$'000
Administrative expenses	1,752	1,741

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

	Group			
	Carrying amount		Remaining amortisation period	
	2018	2017	2018	2017
	$'000	$'000	Months	Months
Trade name and trademarks	2,618	3,351	51	63
Patented technologies	1,531	2,280	27	39
Licence to use technology	588	994	21	33

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:

	2018	2017
	$'000	$'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 2018
(Amounts in thousands of Singapore dollars ("$'000"))

4. INTANGIBLE ASSETS (Continued)

Impairment testing of goodwill (Continued)

The recoverable amount of the CGU, which is relating to PV Vacuum is determined based on value-in-use calculations.

In determining value-in-use, the Group prepares 10-year cash flows 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	
	2018	2017
	%	%
Growth rate (1)		
- Municipal	-	-
- Industrial	0 to 5	0 to 5
Gross margin (2)		
- Municipal	33	32
- Industrial	49	53
Discount rate (3)	6	6

(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 estimated tendered contract value of project (2017: secured and tendered contract value) as at reporting date, which will be completed over the next 1-3 years (2017: next 1- 3 years). Gross margin is budgeted based on the historical track records for the past 3 years (2017: 2 years) for those projects.

Industrial

Management expects that PV Vacuum will be able to achieve annual organic growth rate of 5% (2017: 5%) for the next 5 years for vacuum system projects from industrial customers, 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 (2017: 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 3 years (2017: 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 CGU to materially exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

5. INVESTMENT IN SUBSIDIARIES

	Company	
	2018	2017
	$'000	$'000
Unquoted equity shares, at cost		
At beginning of the financial year	14,889	13,501
Add:		
- Acquisition of shares from non-controlling interests (Note (b))	1,760	-
- Additional equity interest in subsidiary (Note (b))	-	1,250
- Capital contribution by capitalising loan (Note (c))	675	-
- Incorporation of a subsidiary	-	138
At end of the financial year	17,324	14,889
Less: Impairment losses		
At beginning and end of the financial year	(2,679)	(2,679)
Net carrying amount	14,645	12,210

(a) Details of the subsidiaries are as follows:

Name	Principal activities	Country of incorporation and place of business	Proportion (%) of ownership interests	
			2018	2017
			%	%
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 2018
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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	
			2018	2017
			%	%
Held by the Company (Continued)				
Darco Environment Vietnam Co. Ltd. [5]	Investment holding, design and fabrication of water treatment systems and providing consultancy services in relation to such business	Vietnam	100	100
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")	72 (Note (b))	60
Darco Infraco Vietnam Water Pte. Ltd.[1][6]	Investment holding	Singapore	100	-
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

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(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	
			2018	2017
			%	%
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; solid waste disposal treatment and incineration; noise and vibration prevention engineering; soil pollution control engineering; environmental monitoring system	Taiwan	100	100
Puzer Asia Pte. Ltd. [1]	Trading in vacuum cleaning systems and provision of related services	Singapore	56	56
Darco Viet Water Company Limited [5][6]	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	Vietnam	100	-
Darco Ba Lai Water Supply Limited [5][6]	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	Vietnam	90	-
Darco Nghe An Company Limited [5][6]	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	Vietnam	90	-

(1) Audited by Crowe Horwath First Trust LLP, Singapore.
(2) Audited by member firms of Crowe Global in the respective countries.
(3) Audited by Fernandez, Santos & Lopez, Philippines.
(4) Audited by a CPA firm in the PRC.
(5) Audited by BDO, Vietnam
(6) Newly incorporated during the financial year.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
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5. INVESTMENT IN SUBSIDIARIES (Continued)

(b) Financial year 2018

On 16 June 2017, the Company announced that on the same date, the Company had entered into a conditional sale and purchase agreement ("SPA") with Hong Kong Meidi Investments Holdings Co., Ltd ("HKMI") to acquire 12% of the total equity interest in the registered capital of WHKD ("Proposed Acquisition").

Pursuant to the terms and conditions of the SPA, the Proposed Acquisition was to be satisfied solely via the allotment and issuance of 3,824,891 shares in the capital of the Company at an original issue price of $0.50 per share ("Consideration Shares") to HKMI.

On 1 February 2018 and 21 March 2018, the Company announced that they had obtained the in-principle approval for the listing and quotation of the Consideration Shares on the mainboard of SGX-ST and the Proposed Acquisition had been approved by the Shareholders at the extraordinary general meeting respectively.

Accordingly, on 21 March 2018, the Company has completed the acquisition of the additional 12% equity interest in the registered capital of WHKD from HKMI for an approximately of $1,760,000 via the allotment and issuance of 3,824,891 new ordinary shares in the share capital of the Company at a fair value issue price of $0.46 per share to HKMI.

Immediately prior to the purchase, the carrying amount of the existing 40% non-controlling interest in WHKD was approximately $7,878,000. The Group recognised a decrease in non-controlling interest of $2,363,000 and an increase in equity attributable to owners of the parent of $603,000. The effect on the equity attributable to the owners of the Company during the financial year is summarised below:

	Group 2018 $'000
Carrying amount of non-controlling interest acquired	2,363
Share consideration paid to non-controlling interest	(1,760)
Difference directly recognised in equity (Note 13(a))	(603)

Financial year 2017

On 27 January 2017 and 31 October 2017, the Company has further subscribed for 250,000 and 1,000,000 new ordinary shares in its wholly owned subsidiary, PV Vacuum Engineering Pte. Ltd. for an amount of $250,000 and $1,000,000 respectively.

(c) During the current financial year ended 31 December 2018, the Company capitalised outstanding loan amount of approximately $675,000 due from Darco Environment Vietnam Co., Ltd.. The effective equity interest in the subsidiary remains the same.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
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5. INVESTMENT IN SUBSIDIARIES (Continued)

(d) 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	
	2018	2017
	%	%
With material NCI		
Wuhan Kaidi Water Services Co., Ltd ("WHKD")	28	40
With immaterial NCI		
Darco Environmental (Philippines) Inc.	35	35
Puzer Asia Pte. Ltd.	44	44

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

	2018	2017
	$'000	$'000
WHKD	5,336	8,219
Other subsidiaries with immaterial NCI	(31)	(30)
Total	5,305	8,189

(iii) The following summarises the financial information of WHKD, based on its respective financial statements prepared in accordance with SFRS(I) (2017: FRS), modified for fair value adjustment on acquisition.

	2018	2017
	$'000	$'000
Revenue	43,998	24,653
(Loss) / Profit	(951)	1,482
Other comprehensive loss	(152)	(208)
Total comprehensive (loss) / income	(1,103)	1,274
Attributable to NCI:		
- (Loss) / Profit	(367)	593
- Other comprehensive loss	(42)	(83)
Total comprehensive (loss) / income	(409)	510
Non-current assets	9,120	9,927
Current assets	57,930	42,483
Non-current liabilities	(1,077)	(1,909)
Current liabilities	(46,917)	(29,953)
Net assets	19,056	20,548

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5. INVESTMENT IN SUBSIDIARIES (Continued)

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

(iii) The following summarises the financial information of WHKD, based on its respective financial statements prepared in accordance with SFRS(I) (2017: FRS), modified for fair value adjustment on acquisition (Continued)

	2018	2017
	$'000	$'000
Accumulated NCI of the subsidiaries at end of financial year	5,336	8,219
Cash flows (used in) / from operating activities	(1,819)	1,135
Cash flows used in investing activities	(5)	(1,511)
Cash flows from financing activities	3,552	978

(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 bank balances of WHKD amounting to approximately $6,976,000 (2017: $2,871,000) as at 31 December 2018 held in PRC 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 approximately $3,564,000 (2017: $1,125,000) are pledged to banks for the purpose as disclosed in Note 9 to the financial statements.

(e) Disposal of a subsidiary in the financial year ended 31 December 2017

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 TWD 58,120,426, which was equivalent to $2,606,000.

NOTES TO THE FINANCIAL STATEMENTS

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5. INVESTMENT IN SUBSIDIARIES (Continued)

(e) Disposal of a subsidiary in the financial year ended 31 December 2017 (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 (Note 3)	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 13(a))	(5)
Loss on disposal of a subsidiary (Note 18)	(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

6. DEFERRED TAX ASSETS / (LIABILITIES)

	Group	
	2018 $'000	2017 $'000
At beginning of the financial year	(793)	(715)
Recognised in the profit or loss (Note 19)	328	(66)
Currency translation differences	(2)	(12)
At end of the financial year	(467)	(793)
Presented after appropriate offsetting as follows:		
Deferred tax assets	114	82
Deferred tax liabilities	(581)	(875)
	(467)	(793)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
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6. DEFERRED TAX ASSETS / (LIABILITIES) (Continued)

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	Others**	Total
	$'000	$'000	$'000
2018			
At beginning of the financial year	112	20	132
Recognised in the profit or loss	6	36	42
Currency translation differences	(1)	(1)	(2)
At end of the financial year	117	55	172
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

* 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	Tax over book depreciation	Total
	$'000	$'000	$'000
2018			
At beginning of the financial year	878	47	925
Recognised in the profit or loss	(287)	1	(286)
Currency translation differences	(1)	1	-
At end of the financial year	590	49	639
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

* Amount less than $1,000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
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6. DEFERRED TAX ASSETS / (LIABILITIES) (Continued)

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

Group	2018	2017	Jurisdiction	Expiring year
	$'000	$'000		
Unabsorbed tax losses	6,944	5,747	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	515	PRC	2022
- 2018	1,113	-	PRC/ Vietnam (2017: PRC)	2023
	3,435	2,322		
	10,379	8,069		
Unabsorbed capital allowances	2	-	Singapore / Malaysia	Indefinite
Provisions	917	908	Malaysia	indefinite
Tax over book depreciation	(161)	(211)	Singapore / Malaysia	
Others	10	22	Malaysia	Indefinite
	11,147	8,788		

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

Company	2018	2017	Jurisdiction	Expiring year
	$'000	$'000		
Unabsorbed tax losses	4,074	3,137	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	
	2018	2017
	$'000	$'000
Raw materials	1,771	1,981
Trading goods	1,226	75
	2,997	2,056

NOTES TO THE FINANCIAL STATEMENTS

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7. INVENTORIES (Continued)

The cost of inventories recognised as expense and included in the 'cost of sales' amounted to $46,377,000 (2017: $20,048,000), of which $148,000 (2017: $33,000) pertained to write down on inventories to net realisable value.

8. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Non-current				
Other receivable:				
- A third party [i]	613	489	-	-
Current				
Trade receivables:				
- Third parties	20,375	23,619	-	-
Less: Allowance for impairment losses (Note 24 (iii))	(1,184)	(721)	-	-
Trade receivables, net (Note 14(b))	19,191	22,898	-	-
Contract assets	37,095	20,367	-	-
Less: Allowance for impairment losses (Note 24 (iii))	(417)	-	-	-
Contract assets, net (Note 14(b))	36,678	20,367	-	-
Other receivables:				
- Third parties	1,424	2,675	-	-
- Subsidiaries (non-trade)	-	-	23,029	14,964
	1,424	2,675	23,029	14,964
Less: Allowance for impairment losses (Note 24 (iii))				
- Third parties	(1,107)	(1,063)	-	-
- Subsidiaries (non-trade)	-	-	(9,327)	(8,336)
Other receivables, net	317	1,612	13,702	6,628
Refundable deposits [ii]	4,458	2,085	1,347	1,347
Staff loans	441	137	-	-
Prepayments	88	74	2	39
Advances to suppliers	4,797	571	-	-
GST / VAT receivables	3,001	2,345	9	13
	68,971	50,089	15,060	8,027

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

- Bears fixed interest at then 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 2018
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8. TRADE AND OTHER RECEIVABLES (Continued)

(ii) Included in the refundable deposits comprise mainly of the following:

Group and Company

- an amount of US$1,000,000, equivalent to approximately $1,347,000 (2017: US$1,000,000, equivalent to approximately $1,347,000) being 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 $4,051,000). 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. This would allow the Group to carry out due diligence and valuation work before entering into a definitive Sale and Purchase Agreement ("SPA") 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. As at the date of this report, the due diligence is still in progress, and the Group has agreed with the Vendor to extend the date to finalise into a SPA from original date of 31 May 2018 to 31 December 2019.

Group

- an amount of RMB6,000,000, equivalent to approximately $1,191,000 being paid to a Director of the Company, Wang Zhi under a non-binding Letter of Intent dated 5 November 2018 in respect of a proposed investment in a Build-Operate-Transfer ("BOT") project in Hebei, China for a total consideration of RMB60,000,000 (equivalent to approximately $11,909,000), as announced by the Company on the same date. The transaction is subject to the findings of the due diligence by the Group before entering into a legal binding agreement, which is on-going at the date of this report. The proposed investment is part of the Director's obligation to transfer the Group a BOT water treatment asset within 24 months upon the Company's share placement to him on 27 March 2018, the details of which are in the Company's announcement dated 23 October 2017 and Note 28(b) of 2017 Annual Report.

- an amount of approximately MYR879,000, equivalent to approximately $290,000 is paid as a deposit and part payment with a third party vendor for the purchase of an industrial land in Negeri Sembilan, Malaysia for approximately MYR3,943,000 (equivalent to approximately $1,301,000), in accordance with a SPA entered into during the financial year. The remaining sum of MYR3,064,000 (equivalent to approximately $1,011,000) are payable upon completion of the purchase, within from 4 months from 23 August 2018 (Note 22 (ii)), which is financed by internal working capital. As at the date of this report, the acquisition of the industrial land has been completed and the Group has obtained the land title.

Trade receivables

Trade receivables are non-interest bearing with credit term of 30 to 90 days (2017: 30 to 90 days).

	Group	
	2018	2017
	$'000	$'000
Retention sum receivables arising from contract revenue		
- to be recoverable within 1 year	1	176

Subsidiaries (non-trade)

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

Staff loans

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

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9. CASH AND BANK BALANCES

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Cash at bank and on hand	23,341	16,983	9,554	7,557
Fixed deposits [(i)]	4,584	480	4,023	64
Cash and bank balances as per statements of financial position	27,925	17,463	13,577	7,621
Less: Fixed deposits pledged	(50)	(480)		
Less: Bank balances pledged	(3,564)	(1,125)		
	(3,614)	(1,605)		
Less: Bank overdraft (Note 11)	(1,638)	(479)		
Cash and cash equivalents as per consolidated statement of cash flows	22,673	15,379		

[(i)] Fixed deposits of the Group and the Company bear interest rates ranging from 0% to 3.10% and 0.60% to 1.45% (2017: 0% to 3.10% and at 0%) per annum respectively and have a maturity period ranging from 1 to 48 months and 1 month (2017: from 1 to 48 months and 1 month) respectively from the reporting date.

The movement in pledged fixed deposits and bank balances:

	Group	
	2018	2017
	$'000	$'000
At beginning of the financial year	1,605	1,846
Placement of pledged bank balances	3,009	104
Withdrawn of pledged fixed deposits and bank balances	(894)	(336)
Currency translation differences	(106)	(9)
At end of the financial year	3,614	1,605

These amounts are pledged in connection with the credit facilities by way of performance, banker and tender guarantees granted by the banks.

As at 31 December 2018, the Group has bank balances placed with banks in PRC denominated in Chinese Renminbi ("RMB") amounting to $6,976,000 or RMB35,581,000 (2017: $2,871,000 or RMB13,971,000). The RMB is not freely convertible into foreign currencies. Under PRC'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.

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10. TRADE AND OTHER PAYABLES

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Current				
Trade payables:				
- Third parties	30,386	18,031	-	-
Contract liabilities (Note 14(b))	14,354	10,846	-	-
Other payables:				
- Third parties	462	666	52	90
- Subsidiaries (non-trade) [(i)]	-	-	1,407	2,188
Accruals	2,107	1,980	522	270
Placements monies received in advance [(ii)]	-	4,844	-	4,844
Provision for unutilised leave	134	146	4	17
	47,443	36,513	1,985	7,409

[(i)] Amount due to subsidiaries are unsecured, interest-free and repayable on demand.

[(ii)] This amount was received from several placees in the previous financial year ended 31 December 2017 prior to the issuance of the placement shares to them. The mentioned amount was reversed and recorded as part of the share capital following the completion of the allotment and issuance of the placement shares in the current financial year ended 31 December 2018 (Note 12(i)).

11. BORROWINGS

		Current	Non-current	Total
Group		$'000	$'000	$'000
2018				
Secured	Maturity			
Bank overdraft (Note 9)	On demand	1,638	-	1,638
Obligations under finance leases	2019	39	78	117
Term loan I [(i)]	26 November 2032	5	98	103
Term loan III [(i)]	20 December 2030	62	70	132
Term loan IV [(ii)]	30 March 2019	992	-	992
Term loan V [(i)]	16 March 2022	272	485	757
Term loan VI [(i)]	1 November 2022	56	186	242
Trust receipts [(iii)]	2019	317	-	317
Unsecured				
Term loan II [(iv)]	31 May 2019	357	-	357
Loans from directors of the Company:				
- Mr. Wang Zhi [(v)]	22 March 2020	4,000	-	4,000
- Mr. Wang Yaoyu [(vi)]	21 May 2019	208	-	208
Loan from a related party [(vii)]	5 September 2019	338	-	338
		8,284	917	9,201

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11. BORROWINGS (Continued)

		Current	Non-current	Total
Group		$'000	$'000	$'000
2017				
Secured	Maturity			
Bank overdraft (Note 9)	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 V (i)	16 March 2022	242	785	1,027
Term loan VI (i)	1 November 2022	53	243	296
Trust receipts (iii)	2018	954	-	954
Unsecured				
Loan from an individual (v)	22 March 2020	4,000	-	4,000
Loan from a director of the Company:				
- Mr. Wang Yaoyu (vi)	21 May 2018	216	-	216
Loan from a related party (vii)	5 September 2018	420	-	420
		7,484	1,284	8,768

		Current
Company		$'000
2018		
Unsecured		
Loan from a director of the Company:		
- Mr. Wang Zhi (v)	22 March 2020	4,000
2017		
Unsecured		
Loan from an individual (v)	22 March 2020	4,000

(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 and loan VI. Included in these loans is Term loan V which is a 5-year term loan obtained by WHKD in the previous financial year ended 31 December 2017 to finance the acquisition of office building, which is payable in 60 monthly instalments.

(ii) Term loan IV was obtained from WHKD in the previous financial year ended 31 December 2017. The repayment date was initially due in 27 March 2018 as at 31 December 2017 but it has been extended to 30 March 2019 in the current financial year. A related party, which is one of non-controlling interest of WHKD (Note 21) has provided guarantee for this loan. As at date of this report, the loan has been fully repaid.

(iii) Trust receipts are drawn for a period ranging from 45 days to 150 days (2017: 60 days to 150 days) and bear effective interest rates ranging from 0.15% to 5.12% (2017: 0.02% to 3.17%) per annum. The trust receipts are secured by way of corporate guarantee from the Company, the fixed deposits of the Group, certain freehold lands and buildings of the Group (Note 3).

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11. BORROWINGS (Continued)

(iv) Term loan II is a new term loan obtained by WHKD for working capital purposes.

(v) 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 placement of 27,680,000 new shares by the Company to Mr. Wang ("WZ Placement"), which has been completed on 23 March 2018 and Mr. Wang has been appointed as director of the Company on 3 April 2018. The Loan was for working capital of the WHKD.

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. As the timing of the transfer is not within the Group's control, the Loan is classified as current liability as at 31 December 2018.

The Loan was classified as current liability as at 31 December 2017 based on the condition existing on that date, because if the placement does not take place by the long stop date (in April 2018), the Company shall repay the Loan to Mr. Wang (together with any interest accrued) in full within 14 days on demand by him. WZ Placement was completed on 23 March 2018.

(vi) This amount is unsecured and bears interest at 8% (2017: 10%) per annum, which is included in and taken up as "trade and other payables" in the previous financial year ended 31 December 2017.

(vii) This amount is due to WHLK (Note 21), unsecured and bears interest at 4.35% (2017: 4.35%) per annum, which is included in and taken up as "trade and other payables" in the previous financial year ended 31 December 2017.

Bank overdraft (Floating rate)

The bank overdraft is secured by freehold land and building of a subsidiary and by corporate guarantee from the Company and bears an effective interest rate of 7.95% to 8.35% (2017: 7.95%) per annum.

Term loans

The term loans bear the interest rates as follows:

	Interest rate (per annum)	Group	
		2018	2017
Term loan I	Bank Lending Rate - 2.1%	4.87%	4.87%
Term loan II	Fixed rate	6.09%	-
Term loan III	Bank Lending Rate - 2.0%	4.85%	4.95%
Term loan IV	Loan Prime Rate x 1.4	6.09%	5.44%
Term loan V	Loan Prime Rate x 1.25	5.94%	5.94%
Term loan VI	Fixed rate	6.25%	6.25%

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11. BORROWINGS (Continued)

Reconciliation of liabilities arising from financing activities

Group 2018	As at 1 Jan 2018	Additions	Financing cash flows (i)	Non-cash changes: Foreign exchange movement	As at 31 Dec 2018
	$'000	$'000	$'000	$'000	$'000
Borrowings – Loans and trust receipts	8,225*	-	(704)	(75)	7,446*
Lease obligations	64	97	(43)	(1)	117
	8,289	97	(747)	(76)	7,563

Group 2017	As at 1 Jan 2017	Financing cash flows (i)	Non-cash changes: Disposal of a subsidiary	Non-cash changes: Foreign exchange movement	As at 31 Dec 2017
	$'000	$'000	$'000	$'000	$'000
Borrowings – Loans and trust receipts	3,245*	5,365	(525)	(9)	8,225*
Lease obligations	112	(48)	-	-	64
	3,357	5,317	(525)	(9)	8,289

(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 (Note 9).

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 3.49% (2017: 4.66%) per annum.

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

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11. BORROWINGS (Continued)

Obligations under finance leases (Continued)

	Minimum lease payments	Present value of payments
	$'000	$'000
Group		
2018		
Current portion:		
- Not later than 1 year	45	39
Non-current portion:		
- Later than 1 year and not later than 5 years	86	78
	131	117
Less: Amounts representing finance charges	(14)	-
	117	117
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

12. SHARE CAPITAL

	Group and Company			
	2018		2017	
	Number of ordinary shares	$'000	Number of ordinary shares	$'000
Issued and fully paid ordinary shares				
At beginning of the financial year	57,326,601	54,274	52,326,601	51,405
Placement of ordinary shares (i)	32,680,000	20,992	5,000,000	3,000
Issued for acquisition of a subsidiary (ii)	3,824,891	1,760	-	-
Shares issue expenses	-	(260)	-	(131)
At end of the financial year	93,831,492	76,766	57,326,601	54,274

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12. SHARE CAPITAL (CONTINUED)

(i) 2018
On 8 February 2018, 21 March 2018 and 23 March 2018, the Company issued a total of 3,500,000, 1,500,000 and 27,680,000 placement shares at an issue price of $0.60, $0.60 and $0.65 for each placement share respectively. Out of the total amount of $20,992,000, $4,844,000 was collected in the previous financial year ended 31 December 2017, which was classified as placement monies received in advance (Note 10) and the remaining $16,148,000 was fully received in the current financial year.

2017
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.

(ii) On 21 March 2018, the Company issued 3,824,891 shares at a fair value issue price of $0.46 for the acquisition of additional 12% equity interest in Wuhan Kaidi Water Services Co., Ltd (Note 5(b)).

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.

Share option
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.

13(a). OTHER RESERVES

	Capital reserve	Foreign currency translation reserve	Statutory reserve *	Total
	$'000	$'000	$'000	$'000
Group				
2018				
At beginning of the financial year	-	(3,688)	376	(3,312)
Acquisition of shares from non-controlling interests without a change in control (Note 5(b))	603	-	-	603
Net exchange differences on translation of financial statements of foreign subsidiaries	-	(812)	-	(812)
Non-controlling interests	-	152	-	152
Allocation to statutory reserve	-	-	108	108
At end of the financial year	603	(4,348)	484	(3,261)

NOTES TO THE FINANCIAL STATEMENTS

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

13(a). OTHER RESERVES (Continued)

	Foreign currency translation reserve	Statutory reserve *	Total
	$'000	$'000	$'000
Group			
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(e))	(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.

13(b). ACCUMULATED LOSSES

	Company	
	2018	2017
	$'000	$'000
At beginning of the financial year as previously restated	(37,825)	(37,454)
Adjustments on transition to SFRS(I) 9 (Note 24(iii)(b))	(533)	-
Balance at 1 January as restated	(38,358)	(37,454)
Loss for the financial year	(1,111)	(371)
At end of the financial year	(39,469)	(37,825)

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14. REVENUE

(a) Disaggregation of revenue

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major type of goods and services and geographical location based on location of customers.

	Group			
	Contract revenue	Rendering of services	Sale of goods	Total
	$'000	$'000	$'000	$'000
2018				
Geographical markets				
PRC	43,998	-	-	43,998
Malaysia	12,874	7,340	10,865	31,079
Singapore	6,851	326	688	7,865
Taiwan	-	718	-	718
Others	-	-	172	172
	63,723	8,384	11,725	83,832
Timing of revenue recognition				
At a point of time	-	-	11,725	11,725
Over time	63,723	8,384	-	72,107
	63,723	8,384	11,725	83,832
2017				
Geographical markets				
PRC	26,079	10	43	26,132
Malaysia	4,206	7,407	8,704	20,317
Singapore	9,753	207	427	10,387
Taiwan	668	3,053	174	3,895
	40,706	10,677	9,348	60,731
Timing of revenue recognition				
At a point of time	-	-	9,348	9,348
Over time	40,706	10,677	-	51,383
	40,706	10,677	9,348	60,731
Reportable segment (Note 23)	EE Systems	WM Services	Trading	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

14. REVENUE (Continued)

(b) Contract balances

Contract with customers give rise to the following balances as at the reporting date:

	Group	
	2018	2017
	$'000	$'000
Trade receivables (Note 8)	19,191	22,898
Contract assets (Note 8)	36,678	20,367
Contract liabilities (Note 10)	(14,354)	(10,846)

The timing of revenue recognition, billings and cash collections results in billed accounts receivable (included in trade receivables), unbilled receivables (contract assets), and contract liabilities.

Contract assets relate to the Group's right to consideration for work completed but yet to be billed at reporting date on contract revenue, which will be transferred to trade receivables when the rights become unconditional upon invoicing. Invoicing is in accordance with milestones payments set out in the contract, normally first 10% to 20% of contract sum is payable by customers within 14 to 30 days of signing of contracts and furnishing performance bond if required. Normally the last payment is billable upon final acceptance, or within 12 months from final acceptance. The payments terms for contract revenue is Singapore is normally based on payment claims certified on a monthly basis.

Contract liabilities relating to contract revenue represents the excess of milestone payments over the revenue recognised to date and advances received from customers.

Contract assets and contract liabilities increase significantly as at 31 December 2018 as compared to 1 January 2018 mainly due to increased project implementation in the China subsidiary.

These assets and liabilities are reported as contract assets or liabilities on a contract by contract basis at the end of each reporting period.

Revenue recognised during the financial year ended 31 December 2018 in relation to contract liabilities balance at 1 January 2018 was $9,925,000.

(c) Performance obligations

Revenue amounting to $34,832,000 (2017: $18,514,000) was recognised during the year for performance obligations satisfied (or partially satisfied) in the previous year.

As at reporting date, the transaction price allocated to remaining performance obligations in contracts that are unsatisfied which is expected to be recognised as revenue for the future periods are as follows:

	Group		
	Within 1 year	Within 2 to 5 years	Total
	$'000	$'000	$'000
Revenue expected to be recognised on unsatisfied performance obligations of this contract as of 31 December 2018	47,031	27,220	74,251

As permitted under the transitional provisions in the SFRS(I) 15, the transaction price allocated to partially or fully unsatisfied performance obligations as of 31 December 2017 and 1 January 2017 is not disclosed.

NOTES TO THE FINANCIAL STATEMENTS

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

15. OTHER INCOME

	Group	
	2018	2017
	$'000	$'000
Gain on disposal of property, plant and equipment	3	17
Gain on foreign exchange, net	35	-
Government grants	389	151
Interest income	90	24
Reversal of unfavourable contract *	-	1,035
Reversal of payables	128	-
Miscellaneous income	34	40
	679	1,267

* In the previous financial year, 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 as part of the purchase price allocation of WHKD acquisition in 2016. Accordingly, reversal of the liabilities has been made.

16. FINANCE COSTS

	Group	
	2018	2017
	$'000	$'000
Interest expenses on:		
- amount owing to a related party (Note 21)	22	44
- amount due to directors of the Company (Note 21)	230	10
- borrowings	252	167
- finance leases	4	4
- trust receipts	77	48
	585	273

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
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17. PERSONNEL EXPENSES

	Group	
	2018	2017
	$'000	$'000
Directors of the Company:		
- Directors' fees	138	134
- Directors' remuneration and related costs	489	329
- Defined contributions plan expenses	43	22
Directors of the subsidiaries:		
- Directors' fees	206	178
- Directors' remuneration and related costs	404	323
- Defined contributions plan expenses	26	26
Other key management personnel (non-directors):		
- Salaries and related costs	85	72
- Defined contributions plan expenses	14	13
Total key management personnel remuneration	1,405	1,097
Other personnel:		
- Salaries and related costs	8,853	9,086
- Defined contributions plan expenses	1,035	1,068
	9,888	10,154
	11,293	11,251
Total personnel expenses comprise:		
- Salaries and related costs	10,175	10,122
- Defined contributions plan expenses	1,118	1,129
	11,293	11,251

Total key management personnel remuneration included as above include:

	Group	
	2018	2017
	$'000	$'000
Short-term employee benefits	1,322	1,036
Defined contributions plan expenses	83	61
	1,405	1,097

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 2018
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18. (LOSS) / PROFIT BEFORE INCOME TAX

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

	Group	
	2018	2017
	$'000	$'000
Amortisation of intangible assets (Note 4)	1,752	1,741
Auditors' remuneration paid / payable to:		
- auditor of the Company	192	182
- other auditors	175	113
Depreciation of property, plant and equipment (Note 3)	754	932
Inventories written off (Note 7)	148	33
Legal and other professional fees	1,072	592
Rental expenses for operating leases	556	561
Personnel expenses (Note 17)	11,293	11,251
Property, plant and equipment written off	6	8
Gain on disposal of property, plant and equipment	(3)	(17)
Loss on foreign exchange, net	260	325
Loss on disposal of a subsidiary (Note 5(e))	-	19
Provision / (Write-back) of impairment loss on financial asset, net (Note 24(iii))	506	(4)
Research and development fees	1,409	1,005

19. INCOME TAX EXPENSE

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

	Group	
	2018	2017
	$'000	$'000
Current tax		
- Current year	458	713
- Over provision in the previous financial years	(38)	(67)
	420	646
Deferred tax (Note 6)		
- Current year	(244)	20
- (Over) / Under provision in the previous financial years	(84)	46
	(328)	66
Income tax expense	92	712

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
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19. INCOME TAX EXPENSE (Continued)

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

	Group	
	2018	2017
	$'000	$'000
Accounting (loss) / profit	(1,718)	1,940
Tax at the applicable tax rate of 17% (2017: 17%)	(292)	330
Tax effects of:		
- different tax rates in other countries	(46)	(44)
- tax incentives	(170)	(62)
- expenses not deductible for tax purposes	334	683
- income not subject to tax	(96)	(216)
- deferred tax asset on losses not recognised	495	150
- utilisation of previously unrecognised tax losses	(13)	(109)
- others	2	1
- over provision of current tax in the previous financial years	(38)	(67)
- (over) / under provision of deferred tax in the previous financial years	(84)	46
Income tax expense	92	712

The Company and Singapore subsidiaries
The Company and Singapore subsidiaries are subjected to an applicable tax rate of 17% (2017: 17%). The Company and certain subsidiaries are in a tax loss position for both the financial years ended 31 December 2018 and 2017 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 2017 to 2020 as compared to the statutory tax rate for PRC companies of 25%.

Malaysia subsidiaries
Malaysia subsidiaries are subjected to an applicable tax rate of 24% (2017: 24%). Certain subsidiaries are in a tax loss position for both the financial years ended 31 December 2018 and 2017 and hence they are not subjected to tax in the respective years.

Taiwan subsidiary
Taiwan subsidiary are subjected to an applicable tax rate of 17% (2017: 17%).

Shanghai Darco Engineering Co., Ltd. (PRC)
This subsidiary is subjected to an applicable tax rate of 25% (2017: 25%). It is in a tax loss position for both the financial years ended 31 December 2018 and 2017 and hence it is not subjected to tax.

Darco Environmental (Philippines) Inc.
This subsidiary is subjected to an applicable tax rate of 30% (2017: 30%). It is in a tax loss position for the financial years ended 31 December 2018 and 2017 and hence it is not subjected to tax.

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20. (LOSS) / EARNINGS PER SHARE

Basic (loss) / 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 (loss) / earnings per share is based on the following:

	Group	
	2018	2017
Net (loss) / profit attributable to equity holders of the Company ($'000)	(1,441)	611
Weighted average number of ordinary shares outstanding for basic earnings per share - adjusted	86,071,899	55,819,742
Basic and diluted (loss) / earnings per share (cents)	(1.67)	1.09

Diluted (loss) / earnings per share is the same as the basic (loss) / 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.

21. 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.

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Interest paid to a related party [(i)]	22	44	-	-
Interest paid to directors of the Company				
- Mr. Wang Yaoyu [(i)]	20	10	-	-
- Mr. Wang Zhi [(ii)]	210	-	210	-

[(i)] Wuhan Liankai Investment Co., Ltd. ("WHLK") is considered a related party to the Group as it owns 14.27% (2017: 20.24%) of the Company's shares as at 31 December 2018. WHLK remains as the non-controlling interest of WHKD, which is a 72% (2017: 60%) owned subsidiary acquired by the Group in financial year 2016 from vendors including WHLK.

Included in borrowings of the Group (Note 11) as at 31 December 2018 and 2017 were amounts owing by WHKD to WHLK and amounts due to a director of the Company. In addition, WHLK also provides guarantees, at no charges, for the bank loans of WHKD, as disclosed in Note 11.

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

[(ii)] Included in borrowings (Note 11) as at 31 December 2018 was an amount owing to Mr. Wang Zhi, who is appointed as the one of the Company's director on 3 April 2018.

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22. CONTINGENCIES AND COMMITMENTS

(i) Contingent liabilities

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

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Corporate guarantees provided to banks and financial institutions for credit facilities granted to subsidiaries (Note 24(iii)(b)) – amount utilised	-	-	2,242	1,917

The Company has assessed that those subsidiaries have strong financial capacity to meet the contractual cash flows obligation by the repayment due dates and hence, does not expect significant credit losses arising from these guarantees. As a result, the financial effects of SFRS(I) 9 relating to financial guarantee contracts issued by the Company are not material to the financial statements of the Company and therefore are not recognised as a liability as at 31 December 2018.

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.

(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	
	2018	2017
	$'000	$'000
Future minimum lease payments		
- Not later than 1 year	222	425
- Later than 1 year and not later than 5 years	84	372
	306	797

(iii) Future capital expenditure

Capital expenditure contracted for as at 31 December 2018 but not recognised in the financial statements is as follows:

	Group	
	2018	2017
	$'000	$'000
In respect of:		
- an industrial land (Note 8(ii))	1,011	-

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23. 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 water and wastewater treatment plants; 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.

Business segments

The information for the reportable segments for the financial years ended 31 December 2018 and 2017 is as follows:

2018	EE Systems	WM Services	Trading	Eliminations	Total
	$'000	$'000	$'000	$'000	$'000
Revenue					
Sales to external customers	63,723	8,384	11,725	-	83,832
Inter-segment sales	185	-	346	(531)	-
Total	63,908	8,384	12,071	(531)	83,832
Segment profit	6,754	3,703	4,380	(879)	13,958
Other information:					
Additions to property, plant and equipment	338	3	151	-	492
Provision / (Write-back) of impairment loss on financial assets, net	559	(6)	(47)		506
Amortisation of intangible assets	1,752	-	-	-	1,752
Depreciation of property, plant and equipment	189	55	72	-	316
Finance costs	496	38	31	-	565
Interest income	17	19	7	-	43
Loss / (Gain) on disposal of property, plant and equipment	(1)	5	(1)	-	3
Legal and other professional fees	122	154	21	-	297
Assets					
Segment assets	77,396	3,663	5,670	-	86,729
Liabilities					
Segment liabilities	45,483	2,168	2,652	-	50,303

NOTES TO THE FINANCIAL STATEMENTS

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23. SEGMENT INFORMATION (Continued)

Business segments (Continued)

2017	EE Systems	WM Services	Trading	Eliminations	Total
	$'000	$'000	$'000	$'000	$'000
Revenue					
Sales to external customers	40,706	10,677	9,348	-	60,731
Inter-segment sales	160	-	139	(299)	-
Total	40,866	10,677	9,487	(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
Write-back of impairment loss on trade receivables, net	(50)	16	22	-	(12)
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 2018
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23. 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:

	2018 $'000	2017 $'000
Segment profit from the reportable segments	13,958	14,606
Other income	679	1,267
Distribution expenses	(2,147)	(1,743)
Administrative expenses	(13,117)	(11,921)
(Provision) / Write-back of impairment loss on financial assets	(506)	4
Finance costs	(585)	(273)
(Loss) / Profit before income tax	(1,718)	1,940

(ii) Other material information

	2018 $'000	2017 $'000
Additions to property, plant and equipment		
Segment total	492	550
Unallocated:		
- Relates to general and corporate assets	59	652
	551	1,202
Depreciation of property, plant and equipment		
Segment total	(316)	(447)
Unallocated:		
- Relates to general and corporate assets	(438)	(485)
	(754)	(932)
(Provision) / Write-back of impairment loss on financial assets		
Segment total	(506)	12
Unallocated:		
- Relates to general and corporate assets	-	(8)
	(506)	4

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23. SEGMENT INFORMATION (Continued)

Reconciliation (Continued)

(ii) Other material information (Continued)

	2018 $'000	2017 $'000
Legal and other professional fees		
Segment total	297	235
Unallocated:		
- Arising from general and corporate activities	775	357
	1,072	592
Interest income		
Segment total	43	18
Unallocated:		
- Arising from general and corporate used bank balances	47	6
	90	24
Finance costs		
Segment total	(565)	(19)
Unallocated:		
- Relating to borrowings for general working capital purpose	(20)	(254)
	(585)	(273)

(iii) Segment assets

Segment assets are reconciled to total assets as follows:

	2018 $'000	2017 $'000
Segment assets for reportable segments	86,729	58,326
Unallocated assets for general and corporate use:		
- Deferred tax assets	114	82
- Property, plant and equipment	4,374	4,866
- Other receivables	5,442	12,097
- Income tax recoverable	46	144
- Cash and bank balances	15,122	7,887
	111,827	83,402

NOTES TO THE FINANCIAL STATEMENTS

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23. SEGMENT INFORMATION (Continued)

Reconciliation (Continued)

(iv) Segment liabilities

Segment liabilities are reconciled to total liabilities as follows:

	2018 $'000	2017 $'000
Segment liabilities for reportable segments	50,303	28,134
Unallocated liabilities:		
- Deferred tax liabilities	44	875
- Income tax payable	1	-
- Other payables	2,742	10,119
- Borrowings	4,585	7,785
	57,675	46,913

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 chemicals ("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").

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23. 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 contract revenue) are as follows:

2018	Revenue		Non-current assets	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
PRC	43,998	26,132	7,390	9,771
Malaysia	31,079	20,317	2,336	2,090
Singapore	7,865	10,387	1,022	1,069
Taiwan	718	3,895	93	148
Other countries	172	-	1	1
	83,832	60,731	10,842	13,079

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 $13,504,000 (2017: $10,978,000), or 16% (2017:18%) of the Group's revenue in 2018, is derived from a listed power-producers company based in the PRC, which is attributable to the "EE Systems" segment.

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

24. 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.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

24. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(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.

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

Group 2018	SGD	USD	MYR	NTD	RMB	Others *	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets							
Trade and other receivables	4,120	1,664	10,158	1,070	43,256	1,430	61,698
Cash and bank balances	17,595	1,193	1,470	39	7,064	564	27,925
Intragroup receivables	12,865	296	5,311	1,673	1,840	2	21,987
	34,580	3,153	16,939	2,782	52,160	1,996	111,610
Financial liabilities							
Borrowings	4,258	235	2,057	-	2,651	-	9,201
Trade and other payables	2,822	312	5,511	393	23,697	220	32,955
Intragroup payables	12,865	296	5,311	1,673	1,840	2	21,987
	19,945	843	12,879	2,066	28,188	222	64,143
Net financial assets	14,635	2,310	4,060	716	23,972	1,774	47,467
Less: Net financial (assets) / liabilities denominated in the respective entities' functional currencies	(14,707)	-	(4,128)	(716)	(23,780)	(224)	(43,555)
Foreign currency exposure	(72)	2,310	(68)	-	192	1,550	3,912

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

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24. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

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	-	1,419	-	7,496
Trade and other payables	1,711	420	2,672	216	16,610	229	21,858
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.

As at 31 December 2017, the Group has forward foreign exchange contracts outstanding with notional amount of US$250,000, 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 as at 31 December 2017 and these forward foreign exchange contracts have matured in 2018.

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24. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Company
2018

	SGD	USD	NTD	RMB	Total
	$'000	$'000	$'000	$'000	$'000
Financial assets					
Trade and other receivables	11,341	2,370	1,338	-	15,049
Cash and bank balances	13,300	269	-	8	13,577
	24,641	2,639	1,338	8	28,626
Financial liabilities					
Trade and other payables	575	1,406	-	-	1,981
Borrowings	4,000	-	-	-	4,000
	4,575	1,406	-	-	5,981
Net financial assets	20,066	1,233	1,338	8	22,645
Less: Net financial assets denominated in the Company's functional currency	(20,066)	-	-	-	(20,066)
Foreign currency exposure	-	1,233	1,338	8	2,579

Company
2017

	SGD	USD	NTD	RMB	Euro	Total
	$'000	$'000	$'000	$'000	$'000	$'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	381	2,167	-	-	-	2,548
Borrowings	4,000	-	-	-	-	4,000
	4,381	2,167	-	-	-	6,548
Net financial assets / (liabilities)	8,250	(623)	1,349	8	64	9,048
Less: Net financial assets denominated in the Company's functional currency	(8,250)	-	-	-	-	(8,250)
Foreign currency exposure	-	(623)	1,349	8	64	798

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24. 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% (2017: 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% (2017: 5%) change in foreign currency rates.

If the foreign currencies strengthen by 5% (2017: 5%) against the relevant functional currencies, with all other variables held constant, the Group's loss for the financial year will increase / (decrease) and Company's loss for the financial year will increase / (decrease) (2017: 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
2018						
Group						
Loss for the financial year	(3)	96	(3)	-	8	64
Company						
Loss for the financial year	-	51	-	56	**	-
2017						
Group						
Profit for the financial year	(4)	(41)	**	(43)	(24)	(23)
Company						
Loss for the financial year	-	(26)	-	56	**	3

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

A 5% (2017: 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.

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24. 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	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Fixed rate instruments				
Financial assets				
- Other receivable (Note 8)	613	489	-	-
- Fixed deposits (Note 9)	4,584	480	4,023	64
Financial liabilities				
- Borrowings (Note 11)	(5,579)	(6,977)	(4,000)	-
	(382)	(6,008)	23	64
Variable rate instruments				
Financial liabilities				
- Borrowings (Note 11)	(3,622)	(1,791)	-	-

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 loss for the financial year will increase (2017: Group's profit for the financial year will decrease) and Company's loss for the financial year will increase by:

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
(Loss) / Profit for the financial year	2	(24)	*	*

* Amount less than $1,000.

NOTES TO THE FINANCIAL STATEMENTS

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24. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(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 9.

Management monitors rolling forecasts of the Group's and the Company's liquidity reserve comprises borrowings (Note 11) and cash and bank balances (Note 9) 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.

Group	On demand or within 1 year	Between 2 to 5 years	Over 5 years	Total
	$'000	$'000	$'000	$'000
2018				
Trade and other payables	32,955	-	-	32,955
Borrowings	8,356	1,093	109	9,558
	41,311	1,093	109	42,513
2017				
Trade and other payables	20,677	-	-	20,677
Borrowings	7,832	1,513	109	9,454
	28,509	1,513	109	30,131

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
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24. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(ii) Liquidity risk (Continued)

Company	On demand or within 1 year
	$'000
2018	
Trade and other payables	1,981
Borrowings	4,175
Financial guarantee contracts (Note 22 (i))	2,242
	8,398
2017	
Trade and other payables	2,548
Borrowings	4,200
Financial guarantee contracts (Note 22 (i))	1,917
	8,665

Trade and other payables of the Group are non-interest bearing and normally settled on a range of 30 to 90 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.

For financial guarantees issued to the banks by the Company, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called. Out of this amount, an amount of $286,000 (2017: $474,000) relates to 2-5 years based on the contractual payment schedule of the loans.

(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 22 (i).

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24. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

Credit risk concentration included in the Group's trade receivables (Note 8) as at 31 December is:

- 3 debtors (2017: 3 debtors) in PRC in environmental engineering business that individually represented 7% to 10% (2017: 9% - 14%) of the Group's trade receivables, as part of "EE Systems" segment; and

- 3 debtors (2017: 3 debtors) in Malaysia that individually represented 3% - 14% (2017: 1% - 4%) of the Group's trade receivables, as part of "Trading System" segment.

Credit risk concentration included in the Group's contract assets (Note 8) as at 31 December 2018 is 3 debtors (2017: 3 debtors) in PRC in environmental engineering business that individually represented 9% - 11% (2017: 10% - 34%) of the Group's contract assets, as part of "EE Systems" segment.

The Group manages credit loss based on Expected Credit Losses (ECL) model.

(a) Trade receivables

The Group's exposure to credit risk from trade receivables are linked to the individual characteristics of each customer, and also influenced by the default risk specific to the industry or country brought about by the general economic condition.

To measure the ECL allowance, trade receivables and contract assets have been grouped together according to the main geographical areas in which the Group operates which has higher influence on credit risks than the reportable segments. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same type of contracts. The Group has therefore concluded that the expected loss rates for the trade receivables are a reasonable approximation of the loss rates for the contract assets.

Summarised below is the information about the credit risk exposure on the Group's trade receivables and contract assets grouped by geographical area:

	Contract assets		Trade receivables	
Group – As at 31 December 2018	Gross carrying amount $'000	ECL $'000	Gross carrying amount $'000	ECL $'000
Singapore	2,307	-	816	57
PRC	33,498	414	9,185	520
Malaysia and Taiwan	1,290	3	10,374	607
	37,095	417	20,375	1,184

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
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24. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(a) Trade receivables (Continued)

	Contract assets		Trade receivables	
Group – As at 1 January 2018	Gross carrying amount $'000	ECL $'000	Gross carrying amount $'000	ECL $'000
Singapore	1,755	-	2,284	86
PRC	18,262	88	15,206	299
Malaysia and Taiwan	350	7	6,129	634
	20,367	95	23,619	1,019

Singapore

The Group computes the expected credit loss using probability of default from external rating agencies taking into account the nature of counterparty and the industry the customers operates in, as disclosed below. Management has assessed the appropriateness of the rate based on the payment patterns and historical loss rates.

	Group			
	Gross carrying amount			
	Contract asset	Trade receivables	Probability of default rate	ECL allowance on trade receivables
As at 31 December 2018	$'000	$'000	%	$'000
Industrial customer's industry:				
- Technology hardware, storage and peripherals	18	291	1.09	5
- Construction & engineering	267	367	4.26	44
- Industrial material	-	81	4.27	3
- Others [(i)]	21	24	4.27-6.97	1
	306	763		53
Municipal: Statutory boards of the Singapore Government	2,001	49	0.00	-
	2,307	812		53
Trade receivables subjected to specific impairment	-	4		4
ECL allowance for third parties	2,307	816		57

* Amount less than $1,000.

(i) Others include technology distributors, interactive media and services, hotel, resort and cruise lines, environmental and facilities services, healthcare services, semiconductor and equipment and soft drink industries.

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24. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(a) Trade receivables (Continued)

	Group			
	Gross carrying amount		Probability of default rate	ECL allowance on trade receivables
	Contract asset	Trade receivables		
	$'000	$'000	%	$'000
As at 1 January 2018				
Industrial customer's industry:				
- Technology hardware, storage and peripherals	2	164	1.09	4
- Construction & engineering	174	565	4.87	45
- Industrial material	-	733	4.87	36
- Others (i)	-	98	2.98-7.90	1
	176	1,560		86
Municipal: Statutory boards of the Singapore Government	1,579	724	0.00	-
	1,755	2,284		86
Trade receivables subjected to specific impairment	-	-		-
ECL allowance for third parties	1,755	2,284		86

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
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24. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(a) Trade receivables (Continued)

China

Due to the inherent nature of the construction industry in the China, the payment by the customers may be prolonged. The expected loss rates are based on the payment profiles of sales over a period of 5 years before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experience within this period. The historical rates have been adjusted for forward-looking factors for the economic environment. On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of SFRS(I) 9) was determined via a provision matrix as follow for both trade receivables and contract assets:

Group	Contract assets	Trade receivables							
			Days past due						
					Credit-impaired				
	Current	Current	< 1 year	1 – 2 years	2 – 3 years	3 – 4 years	> 5 years	Individually impaired	Total
31 December 2018									
Expected credit loss rate (%)	1.24%	1.24%	3.83%	8.01%	9.77%	13.15%	69.45%	100%	
Gross carrying amount ($'000)	33,498	3,190	4,756	611	304	117	10	197	9,185
Expected credit loss ($'000)	414	40	182	49	30	15	7	197	520
1 January 2018									
Expected credit loss rate (%)	0.51%	0.51%	1.60%	2.30%	3.75%	5.24%	53.16%	100%	
Gross carrying amount ($'000)	18,262	12,494	1,551	431	124	397	5	204	15,206
Expected credit loss ($'000)	88	48	19	7	4	16	1	204	299

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24. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(a) Trade receivables (Continued)

Malaysia and Taiwan

The expected loss rates are based on the payment profiles of sales over the period of 1 year. The management have concluded that a 10% loss rate for customers was expected for trade receivables that are 90 days above credit terms based on past historical credit loss experiences. In assessing the expected loss rate, the management considers forward-looking factors specific to those customers and the economic outlook. On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of SFRS(I) 9) was determined via a provision matrix as follow for both trade receivables and contract assets.

	Contract assets	Trade receivables						
			Days past due					
Group	Current	Current	< 30 days	30 – 60 days	61 – 90 days	91 – 120 days (credit-impaired)	Individually impaired	Total
31 December 2018								
Expected credit loss rate (%)	0.19%	0.34%	0.73%	2.49%	4.74%	10%	100%	
Gross carrying amount ($'000)	1,290	5,106	2,541	951	319	1,015	442	10,374
Expected credit loss ($'000)	3	17	19	24	13	92	442	607
1 January 2018								
Expected credit loss rate (%)	1.94%	1.76%	2.53%	4.48%	6.98%	10%	100%	
Gross carrying amount ($'000)	350	2,782	1,186	505	459	769	428	6,129
Expected credit loss ($'000)	7	45	29	22	32	78	428	634

NOTES TO THE FINANCIAL STATEMENTS

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24. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(a) Trade receivables (Continued)

When the receivables are determined to have no reasonable prospect of recovery, the Group write-off the balances while continuing to engage in enforcement activity to recover the balances.

The movement of the life-time ECL on trade receivables and contract assets are as follows:

Group	Contract assets	Trade receivables	Total
	$'000	$'000	$'000
2018			
Balance at 1 January 2018			
Per FRS 39	-	721	721
Initial adoption of SFRS(I) 9	95	298	393
	95	1,019	1,114
ECL allowance recognised / (write-back) during the year			
New assets originated	334	412	746
Reversal of unutilised amount	(4)	(236)	(240)
	330	176	506
Currency translation differences	(8)	(11)	(19)
Balance at 31 December 2018 (Note 8)	417	1,184	1,601

(b) Other receivables, including amounts owning by subsidiaries and financial guarantees to subsidiaries

For the purpose of impairment assessment, general 3-stages approach is applied in the ECL assessment of financial assets other than trade receivables and contract assets. Upon initial application of SFRS(I) 9, management is of view that determining whether there has been a significant increase in credit risk since initial recognition would require undue cost or effort, and hence life-time ECL is recognised as at 1 January 2018 and each reporting date until derecognition.

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24. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(b) Other receivables, including amounts owning by subsidiaries and financial guarantees to subsidiaries (Continued)

Summarised below is the information about the credit risk exposure on the other receivables and deposits:

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Non-current				
Other receivables – third party	613	489	-	-
Current				
Other receivables:				
- Third parties	1,424	2,675	-	-
- Subsidiaries (non-trade)	-	-	23,029	14,964
Refundable deposits	4,458	2,085	1,347	1,347
Staff loans	441	137	-	-
Gross carrying amount	6,936	5,386	24,376	16,311
Less: ECL allowance	(1,107)	(1,063)	(9,327)	(8,336)
	5,829	4,323	15,049	7,975

- The Group has assessed that its staff have the financial capacity as well as the ability to repay their loan in the near future and accordingly determined that the amount of the allowance on staff loan was immaterial.

The movement of the life-time ECL on other receivables are as follows:

	Group	Company
	$'000	$'000
Balance at 1 January 2018		
- Per FRS 39	1,063	8,336
- Initial adoption of SFRS(I) 9	54	533
	1,117	8,869
ECL allowance recognised during the year		
- New assets originated	1	458
- Reversal of unutilised amount	(1)	-
	-	458
Currency translation differences	(10)	-
Balance at 31 December 2018 (Note 8)	1,107	9,327

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

24. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(b) Other receivables, including amounts owning by subsidiaries and financial guarantees to subsidiaries (Continued)

The Group and the Company considers the above ECL to be Stage 3 ECL (credit impaired) considering that:

- Other receivables of the Group which were fully provided had been overdue more than 1 year.
- Weak financial position of subsidiaries.

In measuring the ECL allowance on the remaining carrying amounts:

- The Group determined that the amount of the allowance on its deposits are immaterial, in view of the nature of the deposits, the progress of those transactions and the manner of recovery, as disclosed in Note 8.
- The Group has determined that the amount of the allowance on staff loan are immaterial, in view of the assessment that its staff have the financial capacity as well as the ability to repay their loan in the near future.

(c) Cash and bank balances

Bank deposits are placed with reputable financial institutions with high credit-ratings assigned by international credit-rating agencies. Impairment on cash and cash equivalents has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the financial institutions. The amount of the allowance on cash and cash equivalents are immaterial.

Credit risk information for Financial Year 2017 under FRS 39

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
Not past due and not impaired	18,795
Past due but not impaired	
- Past due 0 to 3 months	2,259
- Past due 3 to 6 months	549
- Over 6 months	1,295
	4,103
Past due and impaired trade receivables	721
Less: Allowance for impairment losses	(721)
	22,898

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

24. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

Credit risk information for Financial Year 2017 under FRS 39 (Continued)

The movement in allowance for impairment loss is as follows:

	Group	Company
	$'000	$'000
Balance at 1 January 2017	2,024	8,336
Allowance made (Note 18)	64	-
Allowance written off	(237)	-
Write-back of impairment loss on trade receivables (Note 18)	(68)	-
Currency translation differences	1	-
Balance at 31 December 2017 (Note 8)	1,784	8,336

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, 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 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 31 December 2017, the Company provided an impairment allowance of an aggregate amount of $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 31 December 2017, the Group provided an impairment allowance of an aggregate amount of $1,063,000 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

24. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iv) Financial instruments by category

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Loan and other receivables (including cash and cash equivalents)	-	65,051	-	15,596
Financial assets at amortised cost:				
- Trade receivables	19,191	-	-	-
- Other receivables	5,829	-	15,049	-
- Contract assets	36,678	-	-	-
- Cash and bank balances	27,925	-	13,577	-
	89,623	65,051	28,626	15,596
Financial liabilities at amortised cost	42,156	29,445	5,981	6,548

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 (2017: 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 and intangible assets.

	Group	
	2018	2017
	$'000	$'000
Total debts (Note 11)	9,201	8,768
Total tangible net worth	43,181	20,703
Gearing ratio	0.21 times	0.42 times

The Group is in compliance with all externally imposed capital requirements for the financial years ended 31 December 2018 and 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

25. 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 owing from a third party included in other receivables (Note 8(i)) and bank borrowings - Term loan VI, which 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

At the reporting date, there are no financial instruments in this category.

26. DIVIDEND

Prior to the disposal of a subsidiary, Darco Youli Co., Ltd ("Youli") on 30 September 2017, 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 2018 and 31 December 2017.

27. EXPLANATION OF TRANSITION TO SFRS(I) AND ADOPTION OF NEW STANDARDS

Transition and first-time adoption of Singapore Financial Reporting Standards (International)

In December 2017, the Accounting Standards Council (ASC) issued the Singapore Financial Reporting Standards (International) (SFRS(I)s). SFRS(I)s comprise standards and interpretations that are equivalent to International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) at 31 December 2017 that are applicable for annual period beginning on 1 January 2018. Singapore-incorporated companies that have issued, or are in the process of issuing, equity or debt instruments for trading in a public market in Singapore, will apply SFRS(I)s with effect from annual periods beginning on or after 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

27. EXPLANATION OF TRANSITION TO SFRS(I) AND ADOPTION OF NEW STANDARDS (Continued)

Transition and first-time adoption of Singapore Financial Reporting Standards (International) (Continued)

These are the first financial statements of the Group and of the Company prepared in accordance with SFRS(I)s.

The accounting policies set out in this note have been applied in preparing the financial statements for the year ended 31 December 2018, the comparative information presented in these financial statements for the year ended 31 December 2017 and in the preparation of the opening SFRS(I) statement of financial position at 1 January 2017 (the Group's date of transition), subject to the mandatory exceptions and optional exemptions under SFRS(I) 1.

In preparing the opening SFRS(I) statement of financial position, the Group has adjusted amounts reported previously in the financial statements prepared in accordance with previous FRSs.

In addition to the adoption of the new framework, the Group also concurrently applied the following SFRS(I)s, interpretations of SFRS(I)s and requirements of SFRS(I)s which are mandatorily effective from the same date.

- SFRS(I) 15 *Revenue from Contracts with Customers* which includes clarifications to IFRS *15 Revenue from Contracts with Customers* issued by the IASB in April 2016;
- SFRS(I) *9 Financial Instruments* which includes amendments arising from IFRS 4 *Insurance Contracts* issued by the IASB in September 2016;

The application of the above standards and interpretations do not have a material effect on the financial statements, except for SFRS(I) 9.

(a) SFRS(I) 1

In adopting SFRS(I) in 2018, the Group has applied the transition requirements in SFRS(I) 1 with 1 January 2017 as the date of transition. SFRS(I) 1 generally requires that the Group applies SFRS(I) that are effective as at 31 December 2018 on a retrospective basis, as if such accounting policy had always been applied, subject to the mandatory exceptions and optional exemptions in SFRS(I) 1. The application of the mandatory exceptions and the optional exemptions in SFRS(I) 1 did not have any significant impact on the financial statements.

(b) SFRS(I) 9

Classification and measurement of financial assets
All recognised financial assets that are within the scope of SFRS(I) 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, at the following categories:

- Amortised costs
- Fair value through profit or loss (FVPL)
- Fair value through Other Comprehensive Income (FVOCI) – Debt investments
- Fair value through Other Comprehensive Income (FVOCI) – Equity investments

SFRS(I) 9 eliminates the previous categories of financial assets, namely loans & receivables (L&R), held-to-maturity (HTM) financial assets and available-for-sale (AFS) financial assets.

As allowed by short-term exemption in SFRS(I) 1, the Group adopts SFRS(I) 9 on 1 January 2018. The classification and measurement categories are assessed based on facts and circumstances existed at 1 January 2018 for the determination of the business model. Accordingly, the requirement of FRS 39 *Financial Instruments: Recognition & Measurement* are applied to financial instruments up to the financial year ended 31 December 2017. Difference in carrying amounts of financial assets resulting from adoption of SFRS(I) 9 are adjusted to accumulated losses as at 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

27. EXPLANATION OF TRANSITION TO SFRS(I) AND ADOPTION OF NEW STANDARDS (Continued)

(b) SFRS(I) 9 (Continued)

The reconciliation of the change in classification and measurement of financial assets (including impairment) and measurement of financial liabilities are explained below:

			Carrying amount at 1.1.2018		Accumulated losses adjustment at 1.1.2018
	FRS 39	SFRS(I) 9	FRS 39	SFRS(I) 9	
	Classification of financial assets		$'000	$'000	$'000
Group					
Trade and other receivables	L&R	Amortised cost	47,588	47,141	(447)
Cash and cash equivalents	L&R	Amortised cost	17,463	17,463	-
Company					
Other receivables	L&R	Amortised cost	7,975	7,442	(533)
Cash and cash equivalents	L&R	Amortised cost	7,621	7,621	-

Impairment of financial assets

The "incurred loss" model in SFRS 39 was replaced by the "Expected Credit Losses (ECL)" model in SFRS(I) 9, which applies to financial assets measured at amortised costs. Impairment loss for trade receivables are provided using the simplified approach at the life time ECL or for assets within the scope of SFRS(I) 9 impairment model, impairment losses are generally expected to be provided at a higher amount and earlier than what was provided using FRS 39.

As allowed by SFRS(I), additional impairment resulting from adoption of SFRS(I) 9 are adjusted to retained earnings as at 1 January 2018.

Reconciliation of the movement in impairment loss allowance is as follows:

	Group $'000	Company $'000
Loss allowance as at 31 December 2017, under FRS 39		
- Trade receivables	721	-
- Other receivables	1,063	-
- Due from subsidiaries (non-trade)	-	8,336
	1,784	8,336
impairment loss on 1 January 2018, under SFRS(I) 9		
- Trade receivables	298	-
- Other receivables	54	-
- Contract assets	95	-
- Due from subsidiaries (non-trade)	-	533
	447	533
Impairment loss as at 1 January 2018, under SFRS(I) 9	2,231	8,869

Further details of impairment loss are disclosed in Note 24 (iii).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

27. EXPLANATION OF TRANSITION TO SFRS(I) AND ADOPTION OF NEW STANDARDS (Continued)

(b) SFRS(I) 9 (Continued)

The adoption of SFRS(I) 9 also brought about consequential amendment to SFRS(I) 1 which requires the impairment losses, determined in accordance with SFRS(I) 9, to be presented as a separate line item in the Statement of Profit or Loss and Other Comprehensive Income. An amount of $68,000 which relates to the write-back of impairment loss on trade receivables and an amount of $64,000 which relates to the impairment loss on trade receivables have been reclassified out from both 'Other income' and 'Administrative expenses' respectively to be presented separately on the Statement of Profit or Loss and Other Comprehensive Income for the financial year ended 31 December 2017 as write-back of net impairment loss on financial assets amounting to $4,000.

(c) SFRS(I) 15

SFRS(I) 15 establishes a single comprehensive model in accounting for revenue arising from contracts with customers, and will supersede the revenue recognition guidance including FRS 18 *Revenue*, FRS 11 *Contract revenue* and the related Interpretations.

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.

The changes in accounting policy are described below:

- Sale of goods

  Revenue from sale of goods is recognised upon transfer of control to the customers, usually at the point in time when the goods have been delivered to customers which coincides with the transfer of risks and rewards to customers under FRS 18 *Revenue*.

- Revenue from contract revenue

  Previously, under FRS 11 *Construction Contract*, the Group recognises revenue from construction contacts based on percentage-of-completion method determined by reference to the contract costs incurred to date to the estimated total costs for the contract. Under SFRS(I) 15, the Group assess that revenue from such contracts fulfil the criteria and continued to be recognised over time as it creates or enhances assets controlled by the customers. The progress of completion is measured by reference of contract costs incurred in proportion to the total estimated contract costs for each contract. Management considers that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under SFRS(I) 15. Costs that are not related to the contracts or do not contribute to the progress of satisfying the performance obligation are excluded when calculating the progress, and are expensed as incurred.

  From the review of the contracts, the Group has also assessed that there are no multiple distinct performance obligations, no significant financing component and no variable consideration that will have a material impact on the financial statements. The Group has also assessed that warranty provided for the equipment supplied within these contracts, if applicable, are assurance-typed warranties, and provision is made in accordance with FRS 37/SFRS(I) 1-37 Provisions, Contingent Liabilities and Contingent Assets, which does not represent a change in accounting treatment. Under FRS 11, 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.; and under SFRS (I) 15, such loss-making contracts are provided for as onerous contracts under SFRS(I) 1-37. This represents a change in accounting policy, which does not result in any material impact on the financial statements based on the assessment of the existing contracts.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Singapore dollars ("$'000"))

27. EXPLANATION OF TRANSITION TO SFRS(I) AND ADOPTION OF NEW STANDARDS (Continued)

(c) SFRS(I) 15 (Continued)

The changes in accounting policy are described below (Continued):

- Revenue from rendering of services

  Revenue from rendering of servicing and maintenance support services are recognised over time on a straight-line basis for contracts with fixed rate per month as these represent series of repetitive services. When the service contracts provides fixed rate per service or visit, the revenue is recognised on invoiced value per month as it represents an amount that corresponds directly with the value to the customer of the Group's performance completed to date, as allowed by practical expedient in SFRS(I) 15. This coincides with the timing of revenue recognition previously under FRS 18 *Revenue* due to the nature of services and terms in service contracts.

The changes in accounting policy did not result in material difference for prior years.

Amounts previously included in trade receivables and payables arising from amounts due from / (to) customers from contract revenue and advances from customers are now classified as contract assets and contract liabilities respectively, which are as follows:

	Group and Company		
	As previously reported	Reclassification	As restated
	$'000	$'000	$'000
Statement of financial position as at 31 December 2017			
Included in trade and other receivables:			
- Amount due from customers for contracts work	20,367	(20,367)	-
- Contract assets	-	20,367	20,367
Included in trade and other payables:			
- Amount due to customers for contract work	1,125	(1,125)	-
- Advances from customers	9,721	(9,721)	-
- Contract liabilities	-	10,846	10,846

STATISTICS OF SHAREHOLDINGS

AS AT 19 MARCH 2019

Class of Shares	–	Ordinary Share
Number of Issued Shares (excluding treasury shares and subsidiary holdings)	–	93,831,492
Voting Rights	–	One vote per share
Number of treasury shares held and percentage	–	Nil
Number of Subsidiary Holdings and percentage	–	Nil

DISTRIBUTION OF SHAREHOLDERS BY SIZE OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 99	278	13.59	12,805	0.01
100 – 1,000	992	48.51	484,065	0.52
1,001 – 10,000	595	29.10	2,105,182	2.24
10,001 – 1,000,000	170	8.31	11,260,319	12.00
1,000,001 AND ABOVE	10	0.49	79,969,121	85.23
TOTAL	**2,045**	**100.00**	**93,831,492**	**100.00**

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	WANG ZHI	27,680,000	29.50
2	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	13,388,118	14.27
3	STONE ROBERT ALEXANDER	10,936,700	11.66
4	KGI SECURITIES (SINGAPORE) PTE. LTD.	9,562,227	10.19
5	THYE KIM MENG	7,155,485	7.63
6	UOB KAY HIAN PRIVATE LIMITED	4,232,991	4.51
7	CAPITAL BOOM LIMITED	2,500,000	2.66
8	HELEN YANG	1,608,640	1.71
9	HUANG JIAN	1,504,800	1.60
10	HUANG LINGXI	1,400,160	1.49
11	BNP PARIBAS NOMINEES SINGAPORE PTE. LTD.	745,210	0.79
12	CGS-CIMB SECURITIES (SINGAPORE) PTE. LTD.	522,006	0.56
13	FENG JUN	501,200	0.53
14	TAN TJIN GUAN @ JIO TJIN GUAN	429,770	0.46
15	DBS NOMINEES (PRIVATE) LIMITED	402,314	0.43
16	ANG KAR YEN	393,400	0.42
17	PHILLIP SECURITIES PTE LTD	314,250	0.33
18	OCBC SECURITIES PRIVATE LIMITED	292,290	0.31
19	MAYBANK KIM ENG SECURITIES PTE. LTD.	289,450	0.31
20	LEE SUE LIN	279,296	0.30
	TOTAL	**84,138,307**	**89.66**

STATISTICS OF SHAREHOLDINGS

AS AT 19 MARCH 2019

SUBSTANTIAL SHAREHOLDERS AS AT 19 MARCH 2019

(As recorded in the Register of Substantial Shareholders)

		Direct Interest		Deemed Interests	
No.	Name	No. of shares held	%	No. of shares held	%
1.	Wang Zhi	27,680,000	29.50	–	–
2.	Wuhan Liankai Investment Co. Ltd.	13,387,118	14.27		
3.	Wang Yaoyu(1)			13,387,118	14.27
4.	Stone Robert Alexander	10,936,700	11.66		
5.	Wah Lee Industrial Corp.	7,649,782	8.15		
6.	Thye Kim Meng	7,155,485	7.63		

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 72% owned subsidiary at the Company and 14.27% 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 19 March 2019, 28.79% 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 ("**Company**") will be held at Six Battery Road #10-01 Singapore 049909 on Thursday, 25 April 2019 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 2018 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 2018. (2017: 96,000)

(Resolution 2)

3. To re-elect the following Directors of the Company retiring pursuant to Regulation 106 of the Constitution of the Company:

(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)**

(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, Chapter 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,

("**Share Issue Mandate**")

provided that:

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

NOTICE OF ANNUAL GENERAL MEETING

(2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares and Instruments that may be issued under sub-paragraph (1) above, the total number of issued shares and Instruments shall be based on the 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)**

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 ("**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, 9 April 2019

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes:

(i) Mr. Wang Yaoyu will, upon re-election as a Director of the Company, remain as Executive Chairman of the Company.

Mr. Wang Zhi will, upon re-election as a Director of the Company, remain as Non-Executive Deputy Chairman of the Company and Chairman of the Investment Committee.

Mr. Thye Kim Meng will, upon re-election as a Director of the Company, remain as Managing Director and Chief Executive Officer of the Company.

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.

Please refer to page 46 to 61 in the Annual Report for the detailed information of the Directors, required pursuant to Rule 720(6) of the Listing Manual of the SGX-ST.

(ii) Resolution 11, 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, in total, fifty per centum (50%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company, of which up to twenty per centum (20%) may be issued other than on a pro rata basis to existing shareholders of the Company.

For 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.

(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 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 seventy-two (72) 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** ("**Company**"), hereby appoint:

Name	**NRIC/Passport No.**	**Proportion of Shareholdings (%)**	
		No. of shares	**%**
Address			

and/or (delete as appropriate)

Name	**NRIC/Passport No.**	**Proportion of Shareholdings (%)**	
		No. of shares	**%**
Address			

or failing him/her/them, the Chairman of the Annual General Meeting ("**Meeting**") as *my/our proxy/proxies to vote for *me/us on *my/our behalf at the Meeting of the Company to be held at Six Battery Road #10-01 Singapore 049909 on Thursday, 25 April 2019 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'****
Ordinary Business			
1.	Adoption of the Audited Financial Statements and Directors' Statement for the financial year ended 31 December 2018 together with Auditors' Report		
2.	Approval of Directors' fees amounting to S$96,000 for the financial year ended 31 December 2018		
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 ____________________ 2019

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 seventy-two (72) 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 9 April 2019.

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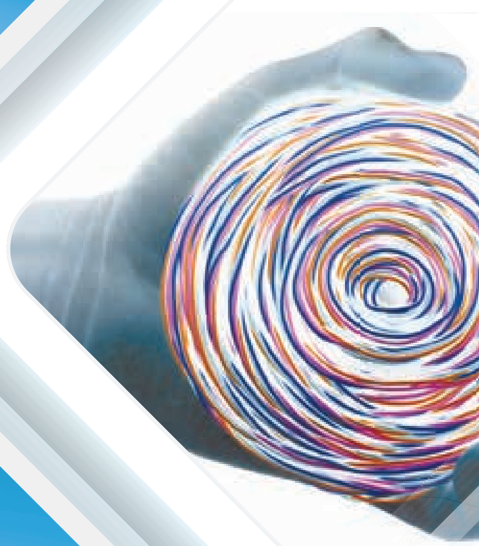

DARCO

SOLUTIONS TO WATER & WASTE

DARCO WATER TECHNOLOGIES LIMITED
21 Marsiling Industrial Estate Road 9
#01-03, Singapore 739175