

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Darco Water Technologies Limited (the "Company") and its subsidiaries (the "Group") set out on pages 46 to 137, which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at 31 December 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act (the "Act") and Singapore Financial Reporting Standards, 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 that transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Basis for Qualified Opinion

The financial statements for the financial year ended 31 December 2013 ("FY2013") were audited by another firm of public accountant and chartered accountants (the "Preceding Auditors"), whose report dated 5 May 2014 expressed an "except for" qualified opinion on those financial statements regarding the comparability of the FY2013 figures with those of FY2012 as a result of multiple qualifications raised on numerous matters arose since FY2009, as more fully described in the relevant previous financial reports.

Opening balances

As required by SSA 510 *Initial Audit Engagements – Opening Balances*, we have, *inter alia*, performed certain specific audit procedures with a view to obtaining evidence regarding the opening balances of the Company and the Group since we were denied access to the Preceding Auditors' working papers. Notwithstanding this, in the light of the multiple audit qualifications since FY 2009 and the significance of the opening balances relative to the current period's financial statements, we are unable to reasonably conclude that we have, as of the date of this report, obtained sufficient appropriate audit evidence that the opening balances do not contain misstatements that may materially affect the financial statements of the Company and the Group for the current financial year ended 31 December 2014.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs, the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2014 and the results, changes in equity and cash flows of the Group for the financial year ended on that date.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 to the financial statements. As at 31 December 2014, the Company's current liabilities have exceeded its current assets by \$3,526,000, notwithstanding that the Group's current assets have exceeded its current liabilities by \$5,715,000. The Group has incurred a negative operating cash flows of \$1,041,000 for the financial year ended 31 December 2014. As disclosed in Note 26 to the financial statements, the Group have several on-going litigations relating to its Taiwan operations as at 31 December 2014.

These factors indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Group and the Company to continue as a going concern.

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REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Emphasis of Matter (Continued)

Despite the above, the accompanying financial statements have been prepared on a going concern basis as the Group and the Company has subsequent to 31 December 2014 been successful in a fund raising exercise via the issuance of the Rights Shares as disclosed in Note 31 to the financial statements, and are still seeking to secure new profitable contracts so as to generate positive operating cash flows to the Group and the Company.

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

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 subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

OTHER MATTER

The financial statements for the year ended 31 December 2013 were audited by the Preceding Auditors whose report dated 5 May 2014 expressed a qualified opinion on those financial statements, as described above.

Crowe Horwath First Trust LLP

Public Accountants and
Chartered Accountants
Singapore

6 April 2015