

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

Unaudited Financial Statements For the Half Year Ended 30 June 2014

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

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

	Half year ended 30 June		
	2014	2013	
	(S\$'000)	(S\$'000)	Change
			%
Revenue	15,009	14,719	2
Cost of sales	<u>(11,659)</u>	<u>(12,316)</u>	-5
Gross profit	3,350	2,403	39
Other income	349	87	301
Distribution expenses	(322)	(621)	-48
Administrative expenses	(3,699)	(4,386)	-16
Finance expenses	(130)	(243)	-47
Loss before income tax	(452)	(2,760)	
Income tax expense	<u>(178)</u>	<u>(32)</u>	455
Loss for the period	(630)	(2,792)	
Loss attributable to:			
Equity holders of the Company	(765)	(2,791)	-73
Non-controlling interests	<u>135</u>	<u>(1)</u>	nm
	(630)	(2,792)	

nm - not meaningful

1(a)(ii) CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR HALF YEAR ENDED 30 JUNE 2014.

	Group		
	Half year ended 30 June		
	2014	2013	
	(S\$'000)	(S\$'000)	Change
			%
Loss for the period	(630)	(2,792)	-77
Other comprehensive income:			
Currency translation differences from consolidation	<u>100</u>	<u>234</u>	-57
Total comprehensive loss for the period	<u>(530)</u>	<u>(2,558)</u>	
Total comprehensive loss attributable to:			
Equity holders of the Company	(633)	(2,569)	-75
Non-controlling interests	<u>103</u>	<u>11</u>	836
Total comprehensive loss for the period	<u>(530)</u>	<u>(2,558)</u>	

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1(a)(iii) Profit before tax is arrived after (charging)/ crediting the followings:

1) Included in other income are:

	Half year ended 30 June		Change
	2014	2013	%
	(S\$'000)	(S\$'000)	
Interest income	73	37	97
Gain on disposal of property, plant and equipment	13	-	nm
Compensation received	209	-	nm
Government grant	18	-	nm
Miscellaneous income	36	50	-28
	<u>349</u>	<u>87</u>	

2) Financial expenses are:

	Half year ended 30 June		Change
	2014	2013	%
	(S\$'000)	(S\$'000)	
Bank overdraft interest	54	70	-23
Term loan bank borrowings	31	106	-71
Finance lease	3	2	50
Other borrowings	42	65	-35
Finance expenses	<u>130</u>	<u>243</u>	

3) Included in loss for the period are:

	Half year ended 30 June		Change
	2014	2013	%
	(S\$'000)	(S\$'000)	
Depreciation	263	215	22
Staff costs	4,067	4,989	-18
Operating leases	198	230	-14

nm-not meaningful

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

<u>BALANCE SHEET</u>	Group		Company	
	<u>30 June 2014</u>	<u>31 December 2013</u>	<u>30 June 2014</u>	<u>31 December 2013</u>
	<u>S\$'000</u>	<u>S\$'000</u>	<u>S\$'000</u>	<u>S\$'000</u>
ASSETS				
Non-current assets				
Property, plant and equipment	4,709	4,600	-	-
Investments in subsidiaries	-	-	4,418	4,418
Intangible assets	905	905	-	-
Deferred income tax assets	110	110	-	-
Total Non-current assets	<u>5,724</u>	<u>5,615</u>	<u>4,418</u>	<u>4,418</u>
Current Assets				
Inventories	1,241	1,139	-	-
Trade and other receivables	13,534	13,040	878	186
Cash and cash equivalents	10,098	9,761	224	406
Total current assets	<u>24,873</u>	<u>23,940</u>	<u>1,102</u>	<u>592</u>
LIABILITIES				
Current Liabilities				
Trade and other payables	14,434	12,782	6,449	5,901
Current income tax liabilities	68	43	-	-
Short term borrowings	2,598	2,945	-	-
Total current liabilities	<u>17,100</u>	<u>15,770</u>	<u>6,449</u>	<u>5,901</u>
Net current assets/(liabilities)	<u>7,773</u>	<u>8,170</u>	<u>(5,348)</u>	<u>(5,309)</u>
Non-current liabilities				
Deferred income tax liabilities	54	53	-	-
Borrowings	1,436	1,195	-	-
	<u>1,490</u>	<u>1,248</u>	<u>-</u>	<u>-</u>
Net assets/(liabilities)	<u>12,007</u>	<u>12,537</u>	<u>(929)</u>	<u>(891)</u>
Shareholders' Equity and reserves				
Share capital	36,985	36,985	36,985	36,985
Other reserves	(4,358)	(4,490)	-	-
Accumulated losses	(23,025)	(22,260)	(37,914)	(37,876)
	<u>9,602</u>	<u>10,235</u>	<u>(929)</u>	<u>(891)</u>
Non-controlling interest	2,405	2,302	-	-
Total equity/(deficit)	<u>12,007</u>	<u>12,537</u>	<u>(929)</u>	<u>(891)</u>

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

Amount repayable in one year or less, or on demand

As at 30 June 2014		As at 31 December 2013	
Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
1,414	1,184	1,515	1,429

Amount repayable after one year

As at 30 June 2014		As at 31 December 2013	
Secured S\$'000	Unsecured S\$'000	Secured S\$'000	Unsecured S\$'000
1,436	-	1,195	-

Details of any collateral

As at 30 June 2014 and 31 December 2013, the secured borrowings are secured by corporate guarantees and freehold land and properties of subsidiaries.

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

<u>CONSOLIDATED STATEMENT CASH FLOW</u>	Half Year Ended	
	30 June 2014	30 June 2013
	S\$'000	S\$'000
Cash Flows from Operating Activities		
Loss before income tax	(452)	(2,760)
Adjustments for :-		
Depreciation of property, plant and equipment	263	215
Net gain on disposal of property, plant and equipment	(10)	-
Amortisation of intangible assets	-	4
Unrealised currency translation losses	218	526
Interest expenses	130	243
Interest income	(73)	(38)
Operating cash flow before working capital changes	76	(1,810)
Changes in working capital, net of effects from acquisition of subsidiaries:-		
Inventories	(19)	34
Construction contracts	(806)	2,468
Trade and other receivables	1,080	(44)
Trade and other payables	(605)	1,089
Cash generated from operations	(274)	1,737
Income tax paid	(371)	(264)
Net Cash (used in)/from Operating Activities	(645)	1,473
Cash Flows from/(used in) Investing Activities		
Additions to property, plant and equipment	(224)	(565)
Acquisition of subsidiaries, net of cash required	524	-
Disposal of property, plant and equipment	15	-
Interest received	73	38
Net Cash from/(used in) Investing Activities	388	(527)
Cash Flows from/(used in) Financing Activities		
Increase in pledged short-term deposits	71	1,399
Advance from shareholders	1,000	-
Repayment of borrowings	(31)	(2,271)
Conversion of overdraft to term loan	662	-
Drawn down on borrowings	-	796
Interest paid	(130)	(243)
Repayments of finance leases liabilities	(20)	(30)
Net Cash from/(used in) Financing Activities	1,552	(349)
Net decrease in cash and cash equivalent	1,295	597
Cash and cash equivalents at beginning of the period	6,876	5,729
Effect of currency translation in cash and cash equivalents	(121)	(465)
Cash and cash equivalent at end of the period	8,050	5,861

NOTES TO CONSOLIDATED STATEMENTS OF CASHFLOWS

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

	Half Year Ended	
	30 June 2014	30 June 2013
	S\$'000	S\$'000
Bank and cash balances	10,098	9,518
Short-term bank deposits pledged	(1,152)	(2,493)
Bank overdraft	(896)	(1,164)
	<u>8,050</u>	<u>5,861</u>

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

	Capital (S\$'000)	Loss (S\$'000)	Reserves (S\$'000)	(S\$'000)	Interest (S\$'000)	Equity (S\$'000)
Balance at 1 January 2014	36,985	(22,260)	(4,490)	10,235	2,302	12,537
Total comprehensive income/(loss) for the period	-	(765)	-	(765)	135	(630)
Other comprehensive income: Currency translation difference	-	-	132	132	(32)	100
Total comprehensive income/(loss) for the period	-	(765)	132	(633)	103	(530)
Balance at 30 June 2014	36,985	(23,025)	(4,358)	9,602	2,405	12,007

	Share Capital (S\$'000)	Accumulated Loss (S\$'000)	Other Reserves (S\$'000)	Total (S\$'000)	Non-controlling Interest (S\$'000)	Total Equity (S\$'000)
Balance at 1 January 2013	36,985	(16,845)	(3,988)	16,152	3,124	19,276
Total comprehensive loss for the year	-	(2,791)	-	(2,791)	(1)	(2,792)
Other comprehensive loss: Currency translation difference	-	-	222	222	12	234
Total comprehensive income/(loss) for the period	-	(2,791)	222	(2,569)	11	(2,558)
Balance at 30 June 2013	36,985	(19,636)	(3,766)	13,583	3,135	16,718

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

	Share Capital (S\$'000)	Accumulated Loss (S\$'000)	Total (S\$'000)
Balance at 1 January 2014	36,985	(37,876)	(891)
Total comprehensive income for the period	-	(38)	(38)
Balance at 30 June 2014	36,985	(37,914)	(929)

	Share Capital (S\$'000)	Accumulated Loss (S\$'000)	Total (S\$'000)
Balance at 1 January 2013	36,985	(38,916)	(1,211)
Total comprehensive income for the period	-	465	465
Balance at 30 June 2013	36,985	(37,731)	(746)

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

There was no change in the Company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. There are no outstanding convertibles or shares held as treasury shares as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

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

As at 30 June 2014 and 31 December 2013, the issued ordinary shares of the Company numbered 276,684,812.

	Group	
	30 June 2014	31 December 2013
	Number of ordinary shares	
Issued and paid up	<u>276,684,812</u>	<u>276,684,812</u>

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

There were no sales, transfer, disposal, cancellation and /or use of treasury shares during the period ended 30 June 2014.

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

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

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

Not applicable.

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

The Group has adopted the same accounting policies and methods of computation in the preparation of the financial statements for the current financial period as per the most recent audited financial statements for the financial year ended 31 December 2013 ("FY2013").

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

The Group and Company have reviewed the application of the latest new and revised Financial Reporting Standards ("FRS") and Interpretations of FRS ("INT FRS") that are effective for the financial year beginning 1 Jan 2014 and have not adopted any new or revised FRS or INT FRS as they are not applicable to the Group and Company.

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

	Group	
	Half year ended June 2014	2013
Earnings per ordinary shares of the group for the current period reported on and the corresponding period of the immediate preceding financial year:-	Cents	Cents
	<hr/>	<hr/>
Basic and diluted loss per shares	(0.23)	(1.01)
Weighted average number of ordinary shares outstanding		
For basic earnings/(loss) per shares	276,684,812	276,684,812

There were no potentially dilutive ordinary shares in issue as at 30 June 2014 and 30 June 2013.

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

	Group		Company	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013
	Cents	Cents	Cents	Cents
Net asset value (for issuer and group) per ordinary share based on issued share capital of the issuer at the end of the financial period.	<hr/>	<hr/>	<hr/>	<hr/>
	4.34	4.53	(0.34)	(0.32)
	<hr/>	<hr/>	<hr/>	<hr/>

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

Revenue and Gross Profit

The Group's revenue increased marginally from S\$14.7 million in 1H2013 to S\$15.0 million in 1H2014.

In general, there was a slight decrease in revenue for the Engineered Environmental Systems ("EE Systems") from \$6.3 million in 1H2013 to \$5.9million in 1H2014 mainly due to the completion of Taiwan municipal project in 2H2013.

Revenue from Water Management Services ("WM Services") decreased from S\$5.1 million in 1H2013 to S\$5.2 million in 1H2014.

Sales from the trading of chemical, spare parts and others increased by S\$0.8 million from S\$3.2 million in 1H2013 to S\$4.0 million in 1H2014. Pursuant to an amicable Settlement Agreement executed on 8th April 2014 between Darco Industrial Water Sdn. Bhd ("DIW"), the Group's subsidiary in Penang, and its former employees (the "Defendants"), there was a recovery of business for the Group, interalia, through the transfer of current business of Grober Industrial Services Sdn. Bhd. ("Grober") from the Defendants to DIW. As a result, the Group's financial statement includes the financial results of Grober, which contributed to the overall increase in trading sales. The transfer of legal ownership of Grober to the Group however, to date, has yet to be completed.

The Group's overall gross profit ("GP") margin was 22.3% in 1H2014, up from 16.3% in 1H2013. The improvement in gross profit margin were mainly due to:-

- Improvement of cost control in DIW following a reduction in manpower.
- Contribution by the new subsidiary, Grober, with higher trading GP margin.
- Disposal of a Taiwan subsidiary which operated at a lower profit margin in the last quarter of FY2013. As a result, the overall GP margin of the Taiwan operations have improved in the current period.

Other income

Other income increased from S\$0.08 million in 1H2013 to S\$0.3 million in 1H2014. The decrease was mainly due to the compensation gain of S\$0.19 million (MYR 0.5 million) from the Settlement Agreement in relation to lawsuit in Penang against former employees on 8 April 2014.

Operating expenses

The Group's distribution expenses decreased from S\$0.6 million in 1H2013 to S\$0.3 million in 1H2014 mainly due to our reshuffling of the manpower in Taiwan resulting in overall reduction in the number of staff in project sales department.

The administrative expenses decreased from S\$4.4 million in 1H2013 to S\$3.7 million in 1H2014. The decrease was mainly due to the Group's disposal of a material subsidiary in Taiwan during the last quarter of FY2013.

Finance costs decreased from S\$0.2 million in 1H2013 to S\$0.1 million in 1H2014. The decrease is in line with the decrease in bank borrowings, following the full repayment of syndicated loans from AFC Merchant Bank and Raiffeisen Bank International AG in the last quarter of FY2013.

The increase in tax expenses is in line with the improvement of financial performance.

Balance sheet

	30 June 2014	31 December 2013
	S\$'000	S\$'000
Equity	12,007	12,537
Non current assets	5,724	5,615
Non current liabilities	1,490	1,248
Current liabilities	17,100	15,770
Current assets	24,873	23,940

Equity decreased from S\$12.5 million as at 31 December 2013 to S\$12.0 million in 30 June 2014 mainly due to the loss incurred in 1H2014.

Non-current assets increased from S\$5.6 million as at 31 December 2013 to S\$5.7 million as at 30 June 2014 mainly due to the increase in property, plant and equipment from the consolidation of a new subsidiary.

Non-current liabilities increased from S\$1.2 million as at 31 December 2013 to S\$1.5 million as at 30 June 2014 mainly due to the conversion for certain overdraft into loan.

Current assets increased from S\$23.9 million as at 31 December 2013 to S\$24.9 million as at 30 June 2014, significantly attributable to the following:

- a) Trade receivables decreased from S\$6.6 million as at 31 December 2013 to S\$6.4 million as at 30 June 2014 mainly due to the reduction in billing for municipal project in Taiwan.
- b) Contract work in progress increased from S\$1.1 million as at 31 December 2013 to S\$1.3 million as at 30 June 2014 mainly due to more project works commenced in 1H2014.
- c) The prepaid tax of S\$0.4 million related to the upfront corporate tax paid to tax authorities.

Current liabilities increased from S\$15.8 million as at 31 December 2013 to S\$17.1 million as at 30 June 2014. The trade payables increased from S\$4.2 million as at 31 December 2013 to S\$4.9 million as at 30 June 2014 mainly due to the slower repayment to trade

payables. In addition, there was a S\$1.0 million advance from a shareholder during the 1H2014.

The Group's gearing ratio remains healthy at 0.27 times as at 30 June 2014.

Cash flow statement

	30 June 2014 S\$'000	30 June 2013 S\$'000
Net cash (used in)/from operating activities	(645)	1,473
Cash flows from/(used in) investing activities	388	(527)
Cash flows from/(used in) financing activities	1,552	(349)
Net increase in cash and cash equivalents	1,295	597

The group cash position as at 30 June 2014 was S\$10.1 million.

For 1H2014, net cash used in operating activities was S\$0.6 million. This was mainly due to slower collection from our contract receivables. The Group also has lesser upfront deposits collected from customers as there are fewer new projects secured in 1H2014.

Cash generated from investing activities in 1H2014 was due to the net cash inflow from the acquisition of a subsidiary of approximately S\$0.5 million, offset by the addition to property, plant and equipment of S\$0.2 million.

Cash from the financing activities in 1H2014 of S\$1.5 million was mainly due to S\$1.0 million loan from a shareholder during the period to support the Group's operations and the conversion of certain overdraft into term loans.

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

The business activities of the Group remain broad-based and are in line with the statement made in the announcement of the full year results for FY2013.

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

Our core business in the electronic and semiconductor industry has remained steady and the Group does not see any significant changes in this sector.

Enquiries in the municipal sector has remained active. In the past, we have been restrained in pursuit of municipal projects due to the Group's financial constraints. Recent events such as the resumption of trading of our securities and the announcement of our impending rights issue should allow the Company to take an active role to bid for such projects once again.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

Not applicable.

(b) Corresponding Period of the Immediately Preceding Financial Year

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

No

(c) Date payable

N/A

(d) Books closure date

Not applicable

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

Not applicable

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

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

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

14. Negative Confirmation by the Board pursuant to Rule 705(5) – can be furnished separately; see attached specimen.

The Directors confirm that, to the the best of their knowledge, nothing has come to the attention of the Board of Directors which may render the unaudited financial statements for the period ended 30 June 2014 to be false or misleading in any material aspect.

BY ORDER OF THE BOARD

THYE KIM MENG
Managing Director and Chief Executive Officer
07 August 2014