

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED  
For the financial year ended 31 December 2013**

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**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 8 to 70 which comprise the statements of financial position of the Group and the Company as at 31 December 2013, 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 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 ("FRS"), 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 profit and loss accounts and balance sheets and to maintain accountability of assets.

*Auditor's 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 judgment, 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.

*Basis for Qualified Opinion*

Our independent auditor's report dated 26 April 2013 expressed a modified opinion on the financial statements for the financial year ended 31 December 2012. The basis for qualified opinion on the financial statements for the financial year ended 31 December 2012 are disclosed in Note 33 to the financial statements.

Our opinion on the current financial year's financial statements is modified because of the possible effect of those matters raised in prior year, on the comparability with the current year's figures.

*Qualified Opinion*

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the 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 Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2013, and the results, changes in equity and cash flows of the Group for the financial year ended on that date.

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**Report on the Financial Statements (cont'd)**

*Emphasis of Matter*

We draw attention to Note 2.1 to the financial statements with respect to the Group's and the Company's ability to continue as a going concern. The Group incurred loss from continuing operations of \$5.41 million (2012: \$6.17 million) and had net cash used in operating activities of \$255,000 (2012: \$6.35 million) for the financial year.

As disclosed in Note 25, the Group have several on-going litigations as at 31 December 2013.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern.

The financial statements have been prepared on the going concern basis as the directors are of the view that:

- (i) the Group and the Company will be able to secure new profitable contracts and generate positive cash flows to the Group and the Company; and
- (ii) the Group will be able to raise funds for its working capital requirements for the next twelve months as and when required.

If the Group and the Company are unable to continue in operational existence for the foreseeable future, and the Group and the Company are unable to discharge their liabilities in the normal course of business, 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 statements of financial position. In addition, the Group and the Company may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. No such adjustments have been made to the financial statements. Our opinion is not modified in respect of this matter.

**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 the subsidiary incorporated in Singapore of which we are the independent auditors, have been properly kept in accordance with the provisions of the Act.

Baker Tilly TFW LLP  
Public Accountants and  
Chartered Accountants  
Singapore

5 May 2014