25. CONTINGENCIES

(a) Contingent liabilities

Contingent liabilities of which the probability of settlement is not remote at the end of the reporting period, are as follows:

Group

(i) Several sub-contractors are making claims against DET for additional compensations totalling approximately NTD$105.96 million (2012: NTD$105.96 million). These cases are as follows:

- Claim against DET by Zhan Ji on Kerya project of NTD$38.43 million. DET had won the first trial on 9 October 2012 and Zhan Ji had filed an appeal on 25 December 2012. The legal case is currently ongoing.

- Claim against DET by Zhan Ji on Chubei project of NTD$30.24 million. DET had lost the legal case on 24 January 2013 and DET had filed an appeal on 18 February 2013. The legal case is currently ongoing.

- Claim against DET on Ruyi contract of NTD$37.29 million. DET had won the first and second trial on 30 March 2012 and 30 January 2013 respectively. The sub-contractor, Ruyi had filed an appeal in March 2013. The legal case was closed in July 2013 after the court judge that Ruyi has no valid reason for appeal.

The legal advisers of DET advised that there are reasonable grounds of defence but subject to decision by the court.

(ii) DET set up a subsidiary, Darco Puding Wastewater Management Co., Ltd. (“Darco Puding”) to enter into a build-operate-transfer (“BOT”) contract with Taoyuan County Government (“TCG”) on 16 March 2010. Under the BOT contract, Darco Puding was granted a 35 years concessionary period to construct and operate the water treatment plant. The construction of the water treatment plant was to be completed in 4 years period from 16 March 2010.

In 2010, the Group found hazardous material in the ground during the construction phase and has informed TCG of this finding. The construction of the water treatment plant has been put on hold since then.

In 2011, Darco Puding was penalised by TCG for non-compliance with the schedule and other obligations as stated in the BOT contract. Total penalty levied and accrued as at 31 December 2011 amounted to $0.43 million (NTD$9.87 million). The construction costs incurred for BOT contract for the financial year ended 31 December 2012 amounted to $0.09 million (NTD$2.20 million) were written off in view of uncertainty of its recoverability.

Due to unacceptable delays in the BOT project in Taiwan, the Group decided that it was in the best interest of Darco Puding and terminated the BOT contract with TCG on 26 December 2012. Darco Puding has requested for refund of the deposit guarantee of $2.5 million (NTD$60.00 million).

Darco Puding was penalised by TCG for non-compliance with the schedule and other obligations as stated in the BOT contract and the cumulated penalties levied demand by TCG as at 6 December 2012 amounted to $6.95 million (NTD$164.98 million). Total penalties levied and accrued for in the financial statements as at 31 December 2013 by Darco Puding amounted to $0.42 million (NTD$9.87 million). The remaining penalties levied of $6.59 million (NTD$155.11 million) has not been accrued for as at 31 December 2013.

TCG had since resisted Darco Puding’s action to rescind the BOT contract, and in response TCG has also ordered the Taoyuan Land Office to cancel Darco Puding’s land use rights (“Land Use Rights”) attached with the BOT contract. Darco Puding then applied for judicial review on the ground that the Land Office had acted illegally to cancel the Land Use Rights attached to the BOT contract. In relation to the land Use Rights, Darco Puding received a judgment in its favour in December 2013.

Management represented that the case is currently ongoing and the Group is still in the midst of discussion with TCG and also has ask for waiver of the penalty levied as of the date of this report. The legal adviser of Darco Puding advised that there are reasonable grounds of defence but subject to decision by the court.

(iii) During the financial year, a main contractor made a claim against DET for compensation amounted to approximately NTD$22,950,000. The legal case is currently ongoing. The legal adviser of DET advised that there are reasonable grounds of defence but subject to decision by the court.

(iv) As disclosed in Note32(c), DET received an additional tax assessments and penalties (the “claims”) from the Taiwanese tax authorities amounting to S$1,780,500 (NTD$42,822,114) and S$1,600,250 (NTD$38,486,995) respectively. The additional tax assessments arose from the fraudulent acts committed by the previous management of DET and is related to years of assessment 2006, 2007, 2008 and 2009 and the penalties as a consequent result of the additional tax assessment. DET has been advised that the claims are disputable and will vigorously appeal and contest such claims. The appeal on the claims and legal suit against the former management of DET is still ongoing.

The management is of the view that no provision is necessary for any of the legal cases described above having considered the status of the legal cases and the opinions obtained from the legal advisers of the respective subsidiaries.

(iv) Guarantees

	Group		**Company**	
	2013	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000
Corporate guarantees provided to banks and financial institutions for credit facilities granted to subsidiaries	**–**	–	**2,206**	14,118
Mortgaged of freehold land to a related party who granted credit facilities to a subsidiary's supplier	**–**	404	–	–

The Company has also given undertakings to continue providing financial support to certain subsidiaries as and when required to allow them to meet their obligations.

The directors have assessed the fair values of these financial guarantees to have no material financial impact on the results for the financial years ended 31 December 2013 and 31 December 2012.

(b) Contingent assets

Group

(i) In March 2010, the Company reported to the Singapore Stock Exchange that the Group was concerned with the manner in which DET accounts had been managed. On 20 May 2010, KPMG Singapore was appointed to conduct an investigation of the affairs of DET. Based on investigation report issued by KPMG Singapore on 27 May 2011, the total amount of possibly misappropriated monies amounted approximately to $7.18 million (NTD$163.41 million).

The Group filed police reports in Taiwan against its former employees and third parties facilitators or conspirators, claiming a total misappropriated amounts of $8.7 million (NTD$206.66 million) as of the date of this report.

The misappropriated amounts were recorded either as alleged administration expenses or project costs and recognised in the consolidated statement of comprehensive income for the financial years ended 31 December 2009 and before.

On 9 May 2013, DET's former general manager and former administrative have been formally charged by Taipei District Prosecutors Office for alleged fraud, breach of trust and misappropriating of company funds, sixteen other suppliers have been charged for alleged complicity.

As of the date of this report, the case is still under police investigation and a refundable deposits of $0.65 million (NTD$15.11 million) has been paid to Taiwan court as guarantee for withhold defendant's assets. The legal case is still ongoing.

(ii) In 2009, DET filed a claim of NTD$8.16 million against RPTI International Ltd for certain repair and maintenance expenses. The court has awarded DET for a lesser amount of NTD$6.48 million. Both parties have appealed against the amount. The case is outstanding as at year end.

(iii) On 24 July 2013, the Group has announced that Darco Industrial Water Sdn Bhd ("DIW") has filed a High Court legal action in Penang against its former employees with a S$5.79 million (RM15.0 million) legal action for breach of duties and conspiracy to divert DIW's business contracts during and after their employment.

DIW is also seeking an inquiry to assess damages for and an account of all profits made by the defendants and an order for payment from the defendants of all sums due to them after the inquiry. DIW is further making a court enquiry against the former employees for the recovery of purported monetary incentives paid to key employees, many of whom subsequently resigned en-mass.

As disclosed in Note 32, DIW has entered into a final and amicable settlement agreement with its former employees, Grober Industrial Services Sdn Bhd and KIJ Ultra Supreme Filtration Sdn Bhd, and the total value of settlement is estimated to be approximately S$1.15 million (RM3 million).

(c) The Group provided performance guarantee to customers for performance of the contracts during the contract and warranty periods which amounted to $7,329,000 (2012: $17,658,000) as at the end of the reporting period.

33. BASIS FOR QUALIFIED OF OPINION ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

The independent auditor's report dated 26 April 2013 expressed a qualified opinion on the financial statements for the financial year ended 31 December 2012. The extract of the basis for qualified opinion is as follows:

"1. Opening balances

Our independent auditor's report dated 14 August 2012 expressed a disclaimer of opinion on the financial statements for the financial year ended 31 December 2011. The basis for disclaimer of opinion on the financial statements for the financial year ended 31 December 2011 are disclosed in note to the financial statements.

In view of the matters described in the basis for disclaimer of opinion on the financial statements for the financial year ended 31 December 2011, we are unable to determine whether the opening balances as at 1 January 2012 are fairly stated. Since the opening balances as at 1 January 2012 enter into the determination of the financial results and cash flows for the financial year ended 31 December 2012, we are unable to determine whether any adjustments might have been found necessary in respect of the financial statements for the financial year ended 31 December 2012.

Our opinion on the current financial year's financial statements is also modified because of the possible effect of these matters on the comparability of the current year's figures and the corresponding figures.

2. P.T. Darco Indonesia ("PT Darco")

As disclosed in note to the financial statements, the Group diluted its effective equity interest in PT Darco in November 2012 and subsequently disposed of its remaining equity interest in PT Darco during the financial year.

The unaudited management accounts of PT Darco from 1 January 2012 to 30 November 2012 are used to prepare the Group's financial statements, as the audited financial statements of PT Darco are not available as of the date of this report.

We are unable to obtain sufficient information and explanations to enable us form an opinion as to whether the unaudited management accounts of PT Darco prepared, are in accordance with Singapore Financial Reporting Standards and in form and content appropriate and proper for the purpose of preparation of the Group's financial statements for the financial year ended 31 December 2012.

Consequently, we are unable to determine whether any adjustments might have been found necessary in respect of the following:

(i) the net loss of PT Darco from 1 January 2012 to 30 November 2012 and loss on disposal of the investment in PT Darco amounting to $0.37 million and $1.32 million respectively included in the loss from discontinued operations, and related information as disclosed in note to the financial statements;

(ii) the basic and diluted loss per share attributable to equity holders of the Company for loss from discontinued operations as disclosed in note to the financial statements; and

(iii) the effects of assets and liabilities disposed of and related classification of the line items of PT Darco on the consolidated statement of cash flows as disclosed in note to the financial statements.

33. BASIS FOR QUALIFIED OF OPINION ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (cont'd)

3. Salcon Darco Environmental Pte. Ltd. (formerly known as Darco Environmental Pte. Ltd.) ("DNV") and its subsidiaries ("DNV Group")

   The subsidiaries of DNV, Deqing Huanzhong Producing Water Co., Ltd. ("Deqing Huanzhong") and Deqing Darco Producing Water Co., Ltd. ("Deqing Darco") obtained service concession arrangements in The People's Republic of China to construct and operate water treatment plants. Under the service concession arrangements, Deqing Huanzhong and Deqing Darco constructed and operated the water treatment plants for the concession periods of 22 years and 25 years, respectively. Such arrangements fall within the scope of Interpretations of FRS 112 Service Concession Arrangements.

   As disclosed in note to the financial statements, the Group completed the disposal of 60% effective equity interest in DNV in July 2012.

   The unaudited management accounts of DNV Group from 1 January 2012 to 31 July 2012 are used to prepare the Group's financial statements, as the audited financial statements of DNV Group are not available as of the date of this report. The unaudited management accounts are prepared based on key assumptions as disclosed in note to the financial statements for computation of the fair values of considerations received and receivable of service concession arrangements.

   We are unable to obtain sufficient information and explanations including the reasonableness of the key assumptions, construction costs and methods used in the determination of the revenue recognition, fair values of the financial assets on the initial recognition, and the amortised costs and corresponding finance income during the concession periods to enable us form an opinion as to whether the unaudited management accounts of DNV Group prepared, are in accordance with Singapore Financial Reporting Standards and in form and content appropriate and proper for the purpose of preparation of the Group's financial statements for the financial year ended 31 December 2012.

   Consequently, we are unable to determine whether any adjustments might have been found necessary in respect of the following:

   (i) the net profit of DNV Group from 1 January 2012 to 31 July 2012 and loss on disposal of the investment in DNV amounting to $2.08 million and $5.12 million respectively included in the loss from discontinued operations, and related information as disclosed in note to the financial statements;

   (ii) the basic and diluted loss per share attributable to equity holders of the Company for loss from discontinued operations as disclosed in note to the financial statements; and

   (iii) the effects of assets and liabilities disposed of and related classification of the line items of DNV Group on the consolidated statement of cash flows as disclosed in note to the financial statements.

4. Segment information

   Segment information that enable users of the financial statements to evaluate the nature and financial effects of the business activities in which the Group engages and the economic environments in which it operates as required by FRS 108 Operating Segments are disclosed in note to the financial statements. We are unable to perform necessary audit procedures to determine whether the segment information is fairly presented.

5. Financial instruments: Disclosures

Information that enable users of the financial statements to evaluate the significance of financial instruments for the Group's financial position and performance; and the nature and extent of risks arising from financial instruments to which the Group are exposed during the period and at the end of the reporting period, and how the Group manage those risks as required by FRS 107 Financial Instruments: Disclosures are disclosed in note to the financial statements, respectively. We are unable to perform necessary audit procedures to determine whether the information is fairly presented."