

DARCO WATER TECHNOLOGIES LIMITED (200106732C)

Half Year Financial Statement And Dividend Announcement for the six month ended 30 June 2007

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

1(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year

Set out below are the consolidated results for half the year ended 30 June 2007. Certain items reported for the half year ended 30 June 2006 have been reclassified to conform with this report for the half year ended 30 June 2007.

INCOME STATEMENT

Notes	Group		
	01-Jan-07 to 30-Jun-07	01-Jan-06 to 30-Jun-06	Change
	(S\$'000)	(S\$'000)	%
Revenue	33,851	30,880	10
Cost of sales	(25,684)	(23,135)	11
Gross profit	8,167	7,745	5
Financial income	551	93	493
Financial expenses	(1,075)	(666)	61
Distribution cost	(1,594)	(1,377)	16
Administrative expenses	(3,685)	(2,779)	33
Other credits / (charges)	(3)	-	-
Profit before tax	2,361	3,016	(22)
Income tax (expense)/credit	(295)	(405)	(27)
Profit for the year	2,066	2,611	(21)
Attributable to:			
Equity holders of the company	1,874	2,376	(21)
Minority interests	192	235	(18)
	2,066	2,611	(21)

Notes:

1) Included in financial income (expenses) are:

	Group		
	01-Jan-07 to 30-Jun-07	01-Jan-06 to 30-Jun-06	Change
	(S\$'000)	(S\$'000)	%
Interest Income	79	37	112
Miscellaneous income from subsidiaries	472	54	773
Foreign exchange adjustment (loss)/gain	(4)	(77)	(94)
Interest expense	(1,071)	(587)	83
	(524)	(573)	(8)

Presented in the income statement as:

Financial income	551	93	493
Financial expense	(1,075)	(666)	61
Finance income and (expense) net	(524)	(573)	(8)

2) Other credits / (charges) are:

	Group		
	01-Jan-07 to 30-Jun-07	01-Jan-06 to 30-Jun-06	Change
	(S\$'000)	(S\$'000)	%
Gain/(Loss) on disposal of plant and equipment	(3)	-	nm

3) Included in profit after income tax are:

	Group		
	01-Jan-07 to 30-Jun-07	01-Jan-06 to 30-Jun-06	Change
	(S\$'000)	(S\$'000)	%
Depreciation	289	321	(10)
Directors' remuneration	384	237	62

nm-not meaningful

Additional Information

Segmental Results

	Revenue		Profit Before Tax	
	01-Jan-07 to 30-Jun-07	01-Jan-06 to 30-Jun-06	01-Jan-07 to 30-Jun-07	01-Jan-06 to 30-Jun-06
	(S\$'000)	(S\$'000)	(S\$'000)	(S\$'000)
By Business Activity				
Engineered Environmental Systems Sales	29,189	28,033	1,919	2,730
WM Services Sales	3,889	2,200	381	246
Trading (Chemicals & Others)	773	647	61	40
	33,851	30,880	2,361	3,016
By Geographical Market				
Singapore	4,947	1,712		
Malaysia	7,791	10,575		
China	2,410	1,355		
Taiwan	18,064	16,867		
Others	639	371		
	33,851	30,880		

Engineered Environmental Systems sales comprise sales of Engineered Water Systems, Engineered Air Pollution Control Systems and Engineered Solid Waste Systems.

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

BALANCE SHEET

	Group		Company	
	S\$'000		S\$'000	
	30-Jun-07	31-Dec-06	30-Jun-07	31-Dec-06
Property, plant and equipment	27,952	24,545	-	-
Investments in subsidiaries	-	-	7,376	7,376
Goodwill on consolidation	1,266	1,266	-	-
Long Term Trade Receivable	-	-	-	-
Total Non Current Assets	29,218	25,811	7,376	7,376
Current Assets				
Inventories	2,284	1,907	-	-
Contract work in progress	35,540	26,899	-	-
Trade receivables	17,339	17,595	562	60
Other receivables and prepayments	6,543	5,352	51,351	53,761
Cash and cash equivalents	21,104	29,905	998	3,183
Total current assets	82,810	81,658	52,911	57,004
Current Liabilities				
Trade payables & accrued liabilities	13,466	10,489	-	173
Contract work in progress	2,244	3,029	-	-
Other payables	4,622	5,602	3,119	2,896
Provision for taxation	246	854	-	-
Short term borrowing	26,264	22,506	12,769	12,768
Current portion of long term borrowings	2,208	2,208	2,208	2,208
Current portion of finance leases	1,147	446	-	-
Total current liabilities	50,197	45,134	18,096	18,045
Net current assets	32,613	36,524	34,815	38,959
Deferred Tax	138	157	-	-
Long term borrowings	18,030	19,263	15,094	16,195
Finance leases	353	356	-	-
Minority interests	3,349	3,158	-	-
	39,961	39,401	27,097	30,140
Shareholders' Equity	39,961	39,401	27,097	30,140

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

Amount repayable in one year or less, or on demand

As at 30/06/2007	
Secured	Unsecured
29,619,000	-

As at 31/12/2006	
Secured	Unsecured
25,160,000	-

Amount repayable after one year

As at 30/06/2007	
Secured	Unsecured
18,383,000	-

As at 31/12/2006	
Secured	Unsecured
19,619,000	-

Details of any collateral

(a) Short term bank loans

Borrowings are secured by short-term notes, bill payables and corporate guarantees from various Darco group entities.

(b) Long term bank loans (secured)

Borrowings are secured by corporate guarantees from various Darco group entities.

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

CASH FLOW STATEMENT

Cash Flows from Operating Activities

Profit before taxation

Adjustments for :-

Income tax expense

Depreciation expense

Loss on disposal of fixed assets

Interest income

Interest expense

Operating profit before changes in working capital

Changes in working capital:-

Decrease/(Increase) in Inventories

(Increase) in Contract Work In Progress

Decrease/(Increase) in trade receivables

Increase in other receivables and prepayments

Increase/(Decrease) in trade payables and accruals

(Decrease)/Increase in other payables

Cash generated from operations

Interest received

Interest paid

Income taxes paid

Net Cash (used in) from Operating Activities

Cash Flows from Investing Activities

Purchase of property, plant and equipment

Disposal of property, plant and equipment

Net Cash used in Investing Activities

Cash Flows from Financing Activities

Increase/(Repayment) of Short term borrowings

Dividends paid

Increase/(Repayment) of Term loan Facility

Increase/(Repayment) of Finance lease

Net Cash generated from Financing Activities

Net effect of exchange rate changes in consolidating foreign subsidiaries

Net (Decrease)/Increase in cash and cash equivalent

Cash and cash equivalents at beginning of the year

Cash and cash equivalent at end of the year

Half Year Ended	
30-Jun-07	30-Jun-06
S\$'000	S\$'000
2,066	3,016
295	
289	321
3	-
(79)	(38)
1,071	589
3,645	3,888
(377)	189
(9,426)	(6,255)
256	1,293
(1,191)	(917)
2,977	(660)
(980)	(99)
(5,096)	(2,561)
79	38
(1,071)	(589)
(921)	(409)
(7,009)	(3,521)
(3,328)	(25)
19	-
(3,309)	(25)
3,758	(621)
(1,845)	-
(1,233)	10,559
698	-
1,378	9,938
140	(356)
(8,801)	6,036
26,267	4,283
17,466	10,319

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 capitalization issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year

STATEMENT OF CHANGES IN EQUITY

Half year ended 30 June 2007

	Share Capital (S\$'000)	Retained Earnings (S\$'000)	Exchange Reserves (S\$'000)	Total (S\$'000)	Minority Interest (S\$'000)	Total Equity (S\$'000)
Balance at 1 January 2007	27,062	13,899	(1,560)	39,401	3,158	42,559
Net profit for the period	-	1,874	-	1,874	192	2,066
Currency translation difference	-	-	530	530	-	530
Dividends Paid	-	(1,845)	-	(1,845)	-	(1,845)
Balance at 30 June 2007	27,062	13,928	(1,030)	39,961	3,350	43,311

At 30 June 2006

	Share Capital (S\$'000)	Retained Earnings (S\$'000)	Exchange Reserves (S\$'000)	Total (S\$'000)	Minority Interest (S\$'000)	Total Equity (S\$'000)
Balance at 1 January 2006	27,062	11,522	(392)	38,192	2,774	40,966
Net profit for the period	-	2,375	-	2,375	235	2,610
Currency translation difference	-	-	(36)	(36)	-	(36)
Balance at 30 June 2006	27,062	13,897	(428)	40,531	3,009	43,540

At 30 June 2007

	Share Capital (S\$'000)	Retained Earnings (S\$'000)	Total (S\$'000)
Balance at 1 January 2007	27,062	3,078	30,140
Net profit for the period	-	(1,198)	(1,198)
Dividends Paid (*)		(1,845)	(1,845)
Balance at 30 June 2007	27,062	35	27,097

At 30 June 2006

	Share Capital (S\$'000)	Retained Earnings (S\$'000)	Total (S\$'000)
Balance at 1 January 2006	27,062	1,829	28,891
Net profit for the period	-	(727)	(727)
Balance at 30 June 2006	27,062	1,102	28,164

* This is the dividends paid in respect of dividend declared last year.

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 and warrants, conversion of other issues of equity securities, issue of shares or 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 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

	30/06/2007 (S\$'000)	31/12/2006 (S\$'000)
Issued and fully paid ordinary shares of S\$0.05 As at beginning of period	9,223	9,223
Issued during the year As at end of period	-	-
	9,223	9,223

There are no outstanding convertible securities as at the end of the current or previous year.

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 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 applied the same accounting policies and methods of computation as in the most recently audited annual financial statements.

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

There are no material changes on the Income Statement of the Group arising from the adoption of the new/revised FRSs.

6. Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends

Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year:-

- a) Based on the weighted average number of ordinary shares on issue (cents)
b) On a fully diluted basis (cents)

Weighted average number of ordinary shares used to compute basic earnings per share

Effect of dilutive share options

Weighted average number of ordinary shares used to compute fully diluted earnings per share

Group	
01-Jan-07 to 30-Jun-07	01-Jan-06 to 30-Jun-06
Cents	Cents
1.02	1.29
1.02	1.29
184,456,812	184,456,812
-	-
184,456,812	184,456,812

7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the (a) current period reported on and (b) immediately preceding financial year.

	Group		Company	
	As at 30/06/2007	As at 31/12/2006	As at 30/06/2007	As at 31/12/2006
	Cents	Cents	Cents	Cents
Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the financial period	21.66	21.36	14.69	16.34

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 period reported on.

The Group recorded growth in revenue and gross profit for the first half of 2007 despite challenging market conditions.

Revenue

Group revenue rose 10% to \$33.9 million in 1H FY2007 as compared to 1H FY2006. There was a 4% increase in revenue of Engineered Environmental Systems ("EE Systems") from \$28.0 million to \$29.2 million, of which the municipal sector contributed \$17.8 million or 52.7% of the total group revenue as compared to \$16.5 million or 53.6% in 1H FY2006. The increase in municipal sector was mainly due to civil construction activity from Ker-Ya project in Taiwan. The Group's other main business activity, namely the Water Management Services ("WM Services") generated \$3.9 million in revenue; this represents an increase of \$1.7 million or 76%, compared to \$2.2 million in 1H FY2006. This increase was mainly contributed by Deqing BOT project in China. Trading activities (Chemical, spare parts and others) increased by \$0.1 million representing a 19% increase as compared to 1H FY2006.

Engineered Environmental Systems ("EE Systems") and Water Management Services ("WM Services") account for 86.2% and 11.5% of Group revenue respectively in 1H FY2007.

Profitability

With higher revenue, gross profit rose 5% to \$8.2 million in 1H FY2007. Gross profit margin maintained fairly consistent i.e at 24.1% as compared to 25.1% in 1H FY2006.

The Group incurred \$1.6 million representing 16% increase in distribution cost. This was due to intensive sales and marketing activities in new territories, namely Middle East, Vietnam and India for 1H FY2007. The Group's administrative expenses increased by \$0.9 million to \$3.7 million in 1H FY2007. This was resulted from the borrowing cost incurred in connection with the syndicated loan facilities of US\$21 million and S\$4 million which were secured in FY2006 and project bidding costs. As a result, the Group's pre-tax earnings declined to \$2.4 million in 1H FY2007, from \$3.0 million in 1H FY2006. Consequently, net profit attributable to shareholders decreased by 21% to \$1.9 million as compared to \$2.4 million in 1H FY2006.

Balance Sheet

Property, plant and equipment increased by \$3.4 million in 1H FY2007 as compared to \$24.5 million in 1H FY2006. This was due to partial completion of Qian Yuan BOT project.

Inventories increased \$0.4 million to \$2.3 million as at 30 June 2007 as inventories were used to support the higher EE Systems sales. Contract work-in-progress of \$35.5 million was as a result of a significant increase in projects in Taiwan. Revenue for these projects will be recognised in FY2007.

Trade receivables decreased by \$0.3 million compared to those as at 31 December 2006. This was mainly payments received from projects completed in Taiwan.

Other receivables and prepayments increased by \$1.2 million as compared to those at 31 December 2006 mainly due to advance fee payment to secure loan facilities and advance payments to suppliers.

Cash and cash equivalents were lower by \$8.8 million in 1H FY2007 mainly due to financing for the on-going municipal projects in Taiwan.

Trade payables and accrued liabilities increased by \$3.0 million compared to 31 December 2006. This was mainly due to payables to suppliers for equipment purchased for our municipal projects in Taiwan.

Short term borrowings increased from \$3.8 million as at 30 June 2007 to \$26.3 million. This was due to drawdown of revolving credit facility from ANZ Bank for Kerya project.

Long term borrowings decreased to \$18.0 million as at 30 June 2007 as compared to \$19.2 million in 31 December 2006. This was mainly due to repayments made during the year.

Cash flow statement

There was a net cash outflow of \$10.3 million to fund operating and investing activities as a result of the increase in group's business activities in 1H FY2007. Financing activities generated a positive cashflow of \$1.4 million in 1H FY2007 mainly from the drawdown of revolving credit facility from ANZ Bank for Kerya project in Taiwan.

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 FY2006.

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

The Group expect significant improvement in industrial sector, especially from the electronic and the semiconductor sectors on the account of higher orders received in the first half FY2007.

Outlook for municipal water treatment in China is positive with the construction of Qian Yuan BOT project to gather pace. For Taiwan, an additional order of S\$21 million in civil construction is likely to improve our second half earnings. Barring any unforeseen circumstances, our performance for FY2007 is likely to improve significantly. With a current orderbook of S\$400 million with strong earnings visibility for up to 25 years, we remain upbeat about our performance for the municipal and industrial sectors.

11. Dividend

a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on? None

b) Corresponding Period of the Immediately Preceding Financial Year

c) Date payable

Not Applicable

d) Books closure date

Not Applicable

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

No dividend has been declared by the Company for the financial period ended 30 June 2007.

**PART II - ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT
(This part is not applicable to Q1, Q2, Q3 or Half Year Results)**

13. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year

Please refer to Additional Information in point 1(a) above.

14. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments

Not Applicable

15. A breakdown of sales

Not Applicable

16. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year

Not Applicable

17. Negative assurance on interim financial statements

We, Mr Thye Kim Meng and Mr Lee Sue Lin, being two directors of Darco Water Technologies Limited (the "Company"), do hereby confirm on behalf of the directors of the Company that, to the best of our knowledge, nothing has come to the attention of the Board of Directors of the Company which may render the unaudited interim financial results for the half year ended 30 June 2007 to be false or misleading.

On behalf of the Board of Directors

THYE KIM MENG
Director

LEE SUE LIN
Director

By Order of the Board

THYE KIM MENG
Managing Director and Chief Executive Officer
13 August 2007