

**DARCO WATER TECHNOLOGIES LIMITED**

Registration No: 200106732C  
(Incorporated in Singapore)

**Clarification on Annual Report for the Financial Year Ended 31 December 2006**

In response to the e-mail from the Singapore Exchange Securities Trading Limited dated 26<sup>th</sup> April 2007, the Board of Directors of Darco Water Technologies Limited wishes to provide the following additional information in relation to the Annual Report for the Financial Year Ended 31 December 2006 ("Annual Report") as follows:

SGX Query 1:

Pursuant to Rule 1207(16), please provide the information required by Rule 907 in respect of any interested person transactions entered into during the financial year. If there is no interested person transaction, to give a negative statement.

Our Reply:

For the financial year 2006 under review, the Group entered into interested person transactions with:

- 1) Calvin Thye and Madam Yong (wife). Calvin Thye is the brother of Thye Kim Meng. Being rental of a light industrial factory at No.3 Jln TS 6/4, Tmn Industrial Subang, Malaysia.
- 2) Mary Ng (Teh Swee Heng's wife). Teh Swee Heng is the Director of the Group. Being rental of a shop unit at No.20 Hujung Perusahaan 2, KWS MIEL, Phase V, Prai Industrial Estate, 13600 Prai, Malaysia.

There are interested person transactions in FY2006 but with individual transaction not exceeding \$100,000 threshold for disclosure.

Name of Interested Person	Aggregate value of all IPTs during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all IPTs conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000)
Calvin Thye and Madam Yong (wife)	-	-
Mary Ng (Teh Swee Heng's wife)	-	-

SGX Query 2:

We refer to page 19 of the Annual Report. Pursuant to Rule 704(5), an issuer must immediately announce any emphasis of matter by the auditors on the financial statements of the issuer. To explain the reason for the breach of Rule 704(5). Kindly make an immediate announcement of the auditor's report and to include note 5(a) on page 35 of the Annual Report in the announcement.

Our Reply:

The Board acknowledged the breach of Rule 704(5) due to an oversight and such announcement would be done in future.

The Company refers to page 19 of the Company's Annual Report and to Note 5(a) on page 35 of the Company's Annual Report relating to an emphasis of matter by the auditors.

Shareholders are advised to read the entire text of the Auditors' Report as set out on page 19 in the Company's Annual Report 2006, available in the SGX website or from the Company's Share Registrars. In summary, the Auditors' Report mentioned that, due to certain matters, the Auditors draw attention to Note 5(a) of the Financial Statements. These matters relate to:-

Included in the trade receivables of the group is an amount of \$5,818,000 (2005: \$6,318,000) relating to sub-contract works due from a customer based in Taiwan. The outstanding amount of \$5,818,000 (2005: \$6,318,000) (or US\$3,790,000) is overdue under the terms of the contract and it remains unpaid. An amount of \$4,883,000 (2005: \$5,303,000) (or US\$3,181,000) out of the total outstanding amount of \$5,818,000 (2005: \$6,318,000) (or US\$3,790,000) is covered by way of a credit insurance underwritten with a credit insurance company in Singapore. The delay in payment is the result of a delay in the completion of the main contract which the customer is involved in. The uninsured amount of \$1,002,000 (2005: \$1,002,000) (or US\$589,000) has been fully provided for during the year 2004.

Management has submitted a claim of \$4,110,000 (2005: \$4,268,000) (or US\$2,678,000) to the credit insurance company concerned in 2004 and appointed a legal counsel in Taiwan in 2005 for the recovery of debt. Management has also appointed a legal counsel in Singapore in 2005 to deal with the credit insurance company in order to expedite the claim process. To date, management has not submitted a claim to the credit insurance company for the retention monies of \$773,000 (2005: \$1,035,000) (or US\$503,000) billed in 2005. It is management's intention to submit the claim for the retention monies of \$773,000 (2005: \$1,035,000) (or US\$503,000) once the initial claim of \$4,110,000 (2005: \$4,268,000) (or US\$2,678,000) has been satisfactorily settled. The directors are satisfied that management has taken the necessary steps to ensure that the group has met its obligations under the credit insurance policy to date and are of the view that the full insured amount is recoverable under the insurance policy.

In current financial year, the claim is still under pre-trial, the outcome of this claim is expected to be finalised in financial year 2007.

Based on the above, the directors are of the opinion that the above amount of \$4,883,000 (2005: \$5,303,000) (or US\$3,181,000) is fully recoverable and no further provision for impairment is needed.

SGX Query 3:

We note in the Cash Flow Statement of the Annual Report that there was variance in the item "Disposal of plant and equipment" from the respective items reported in the Company's full year financial statement ("FY2006 Results") announcement dated 28 February 2007. In the FY2006 Results announcement, Disposal of plant and equipment" was reported as S\$1.280 million; whereas in Annual Report, the same item was reported as S\$0.827 million. To disclose the circumstances that resulted in the above variance. Please also provide details and quantify the items that materially contributed to the variance.

Our Reply:

During the audit, we found that the proceeds from the disposal of plant and equipment during the year were only S\$0.827 million instead of S\$1.280 million.

Breakdown from the proceeds of S\$0.827 million for the period ended 31<sup>st</sup> December 2006 is set out as follows:

Cost of the plant and equipment	S\$1.280 million
Accumulated Depreciation	S\$0.200 million
Loss on disposal	S\$0.253 million
Proceeds on disposal	S\$0.827 million

BY ORDER OF THE BOARD  
DARCO WATER TECHNOLOGIES LIMITED

Submitted by Thye Kim Meng, Director on 3 May 2007 to the SGX.