

DARCO WATER TECHNOLOGIES LIMITED (200106732C)

Full Year Financial Statement And Dividend Announcement for the year ended 31 December 2006

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 the year ended 31 December 2006.

INCOME STATEMENT

	Notes	Group		
		Year ended 31-Dec-06	Year ended 31-Dec-05	Change
		(S\$'000)	(S\$'000)	%
Revenue		68,905	55,251	25
Cost of sales		(51,862)	(38,047)	36
Gross profit		17,043	17,204	(1)
Financial income	1	787	191	312
Financial expenses	1	(2,038)	(2,116)	(4)
Distribution cost		(3,732)	(3,061)	22
Administrative expenses	Note 8	(8,532)	(5,940)	44
Other credits / (charges)	2	(253)	4	nm
Profit before tax		3,274	6,282	(48)
Income tax (expense)/credit		(1,192)	(562)	112
Profit for the year	3	2,082	5,720	(64)
Attributable to:				
Equity holders of the company		2,377	5,650	(58)
Minority interests		(295)	70	(522)
		2,082	5,720	(64)

Notes:

1) Included in financial income (expenses) are:

	Group		
	Year ended 31-Dec-06	Year ended 31-Dec-05	Change
	(S\$'000)	(S\$'000)	%
Interest Income	115	49	134
Miscellaneous income from subsidiaries	671	142	373
Foreign exchange adjustment (loss)/gain	830	(414)	(300)
Bad debts written off on trade receivables	(10)	(55)	(82)
Bad debts written off on other receivables	-	(60)	(100)
Provision for impairment on trade receivables	(241)	(3)	nm
Provision for impairment on other receivables	(843)	(424)	99
Interest expense	(1,775)	(1,160)	53
	(1,252)	(1,925)	(35)

Presented in the income statement as:

	Year ended 31-Dec-06	Year ended 31-Dec-05	Change
	(S\$'000)	(S\$'000)	%
Financial income	787	191	312
Financial expense	(2,038)	(2,116)	(4)
Finance income and (expense) net	(1,252)	(1,925)	(35)

2) Other credits / (charges) are:

	Group		
	Year ended 31-Dec-06	Year ended 31-Dec-05	Change
	(S\$'000)	(S\$'000)	%
Gain/(Loss) on disposal of plant and equipment	(253)	4	nm

3) Included in profit after income tax are:

	Group		
	Year ended 31-Dec-06	Year ended 31-Dec-05	Change
	(S\$'000)	(S\$'000)	%
Depreciation	1,226	1,000	23
Directors' remuneration	811	610	33

nm-not meaningful

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	
	31-Dec-06	31-Dec-05	31-Dec-06	31-Dec-05
Property, plant and equipment	24,545	25,586	-	-
Investments in subsidiaries	-	-	7,376	7,376
Goodwill on consolidation	1,266	1,266	-	-
Long Term Trade Receivable	-	-	-	-
Total Non Current Assets	25,811	26,852	7,376	7,376
Current Assets				
Inventories	1,907	1,966	-	-
Contract work in progress	26,899	17,317	-	-
Trade receivables	17,595	21,265	60	370
Other receivables and prepayments	5,352	4,102	53,761	38,094
Cash and cash equivalents	29,905	7,348	3,183	722
Total current assets	81,658	51,998	57,004	39,186
Current Liabilities				
Trade payables & accrued liabilities	10,488	12,869	173	309
Contract work in progress	3,029	3,900	-	-
Other payables	5,602	4,272	2,896	3,610
Provision for taxation	854	309	-	-
Short term borrowing	9,738	9,934	-	7,502
Current portion of long term borrowings	2,208	1,886	2,208	1,667
Current portion of finance leases	481	-	-	-
Total current liabilities	32,400	33,170	5,277	13,088
Net current assets	49,258	18,828	51,727	26,098
Deferred Tax	157	130	-	-
Long term borrowings	32,032	4,584	28,963	4,584
Finance leases	321	-	-	-
Minority interests	3,158	2,774	-	-
	39,401	38,192	30,140	28,890
Shareholders' Equity	39,401	38,192	30,140	28,890

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

Amount repayable in one year or less, or on demand

As at 31/12/2006	
Secured	Unsecured
12,427,000	-

As at 31/12/2005	
Secured	Unsecured
11,820,000	-

Amount repayable after one year

As at 31/12/2006	
Secured	Unsecured
32,353,000	-

As at 31/12/2005	
Secured	Unsecured
4,584,000	-

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 corresponding period of the immediately preceding financial year

CASH FLOW STATEMENT

Cash Flows from Operating Activities

Net profit for the year

Adjustments for :-

Income tax expense

Depreciation expense

Loss on disposal of fixed assets

Amortisation of goodwill on consolidation

Interest income

Interest expense

Operating profit before changes in working capital

	Year Ended	
	31-Dec-06	31-Dec-05
	S\$'000	S\$'000
Net profit for the year	2,082	5,720
Income tax expense	1,191	562
Depreciation expense	1,226	1,000
Loss on disposal of fixed assets	253	(4)
Amortisation of goodwill on consolidation	-	-
Interest income	(115)	(49)
Interest expense	1,776	1,160
Operating profit before changes in working capital	6,413	8,389

	Year Ended	
	31-Dec-06	31-Dec-05
	SS'000	SS'000
Changes in working capital:-		
Decrease in Inventories	59	356
(Increase) in Contract Work In Progress	(10,453)	(13,065)
Decrease in trade receivables	3,670	3,739
Increase/(Decrease) in other receivables and prepayments	(1,250)	(3,632)
(Decrease)/Increase in trade payables and accruals	(2,382)	6,518
Increase/(Decrease) in other payables	2,009	(107)
Cash (used in)/generated from operations	(1,934)	2,198
Interest received	115	49
Interest paid	(1,775)	(1,160)
Income taxes paid	(619)	(716)
Net Cash (used in)/from Operating Activities	(4,213)	371
Cash Flows from Investing Activities		
Cash restricted in use over 3 months	(573)	(1,006)
Purchase of property, plant and equipment	(2,192)	(4,353)
Increase in fixed deposit with bank	-	-
Disposal of property, plant and equipment	1,280	10
Preliminary expenses incurred	-	-
Acquisition of subsidiaries	-	-
Net Cash used in Investing Activities	(1,485)	(5,349)
Cash Flows from Financing Activities		
(Repayment)/Increase of Short term borrowings	(196)	2,023
Increase/(Repayment) of Term loan	27,770	(2,145)
Increase/(Repayment) of Finance lease	802	(21)
Net Cash generated from Financing Activities	28,376	(143)
Net effect of exchange rate changes in consolidating foreign subsidiaries	(694)	(215)
Net Increase/(Decrease) in cash and cash equivalent	21,984	(5,336)
Cash and cash equivalents at beginning of the year	4,283	9,619
Cash and cash equivalent at end of the year	26,267	4,283

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

At 31 December 2006

	Share Capital (SS'000)	Retained Earnings (SS'000)	Exchange Reserves (SS'000)	Total (SS'000)	Minority Interest (SS'000)	Total Equity (SS'000)
Balance at 1 January 2006	27,062	11,522	(392)	38,192	2,774	40,966
New ordinary shares issued for acquisition of PV Vacuum Engineering Pte Ltd	-	-	-	-	-	-
Net profit for the year	-	2,378	-	2,378	(295)	2,082
Acquisition from subsidiary from minority interest	-	-	-	-	-	-
Currency translation difference	-	-	(1,168)	(1,168)	0	(1,168)
Balance at 31 December 2006	27,062	13,899	(1,560)	39,401	2,479	41,880

At 31 December 2005

	Share Capital (SS'000)	Retained Earnings (SS'000)	Exchange Reserves (SS'000)	Total (SS'000)	Minority Interest (SS'000)	Total Equity (SS'000)
Balance at 1 January 2005	26,001	5,872	(842)	31,031	3,207	34,238
New ordinary shares issued for acquisition of PV Vacuum Engineering Pte Ltd	1,061	-	-	1,061	-	1,061
Net profit for the year	-	5,650	-	5,650	70	5,720
Acquisition from subsidiary from minority interest	-	-	-	-	(503)	(503)
Currency translation difference	-	-	450	450	-	450
Balance at 31 December 2005	27,062	11,522	(392)	38,192	2,774	40,966

At 31 December 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 year	-	1,249	1,249
Balance at 31 December 2006	27,062	3,078	30,140

At 31 December 2005

	Share Capital (S\$'000)	Retained Earnings (S\$'000)	Total (S\$'000)
Balance at 1 January 2005	26,001	1,278	27,279
New ordinary shares issued for acquisition of PV Vacuum Engineering Pte Ltd	1,061	-	1,061
Net profit for the year	-	551	551
Balance at 31 December 2005	27,062	1,829	28,891

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

	Year ended 31/12/2006 (S\$'000)	Year ended 31/12/2005 (S\$'000)
Issued and fully paid ordinary shares of S\$0.05 As at beginning of period	9,223	9,060
Issued during the year As at end of period	-	163
	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 same accounting policies and methods of computation adopted in the most recently audited financial statements for the financial year ended 31 December 2005 have been applied in the preparation for the financial statements for the financial year ended 31 December 2006 except that the Group had adopted new/revised Financial Reporting Standards (FRS) which came into effect on 1 January 2006.

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

	Group	
	Year ended 31/12/2006	Year ended 31/12/2005
	Cents	Cents
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)	1.29	3.06
b) On a fully diluted basis (cents)	1.29	3.06
Weighted average number of ordinary shares used to compute basic earnings per share	184,456,812	184,456,812
Effect of dilutive share options	-	-
Weighted average number of ordinary shares used to compute fully diluted earnings per share	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 31/12/2006	As at 31/12/2005	As at 31/12/2006	As at 31/12/2005
	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	21.36	20.70	16.34	15.66

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.

Despite the weak industrial market (especially electronic and semiconductor sectors), the fundamental of the Group remains strong with an increase in the Group's revenue as well as strengthening of the consolidated shareholders' equity from \$38.2 million in FY2005 to \$39.4 million in FY2006.

Revenue

Group revenue rose 24.7% to \$68.9 million in FY2006 as compared to FY2005. The growth was mainly due to the 24.7% increase in revenue of Engineered Environmental Systems ("EE Systems") on the back of a 148% growth in municipal sector despite a reduction of 25% in industrial sector. Water Management Services ("WM Services") generated \$11.3 million in revenue, an increase of 24.3% from \$9.1 million in FY2005 due to revenue obtained from Deqing BOT project during the year. Trading (Chemical and others) increased by \$0.6 million or 25.4% as compared to FY2005. Group revenue remained well diversified, with EE Systems and WM Services accounting for 79.4% and 16.5% of Group revenue respectively in FY2006.

The significant increase in revenue for EE Systems was largely contributed by Taiwan market. Taiwan recorded the highest revenue of \$40.6 million followed by Malaysia with \$17.7 million. Together, they accounted for 84.6% of Group's revenue in FY2006.

Profitability

Gross profit declined slightly by 0.93% or \$0.16 million to \$17.1 million. Overall gross profit margin decreased from 31.1% in FY2005 to 24.7% in FY2006. The decline was mainly due to the weak industrial and electronic sector in 2H FY2006. The municipal sector reported a 6.4% gross profit margin on civil construction works undertaken by our Taiwan subsidiary for Kerya project. However the mechanical and electrical work which will contribute higher profit margin will be delivered after the said civil construction work has been completed. The gross profit margin from the municipal sector is expected to improve in FY2007 as the Group will embarked on the higher profit margined mechanical and electrical works after the completion of the said civil construction works.

The Group incurred \$3.7 million in selling and distribution expenses for FY2006 to support the increase in business activities. This is an increase of approximately \$0.6 million compared to FY2005 and were primarily due to higher travelling costs by our sales and management team to pursue potential new customers in Thailand, China, Indonesia and Vietnam.

The Group's administrative expenses increased by \$2.6 million to \$8.5 million in FY2006. This resulted from the borrowing costs incurred in connection with the new syndicated loan facilities of US\$21 million and S\$4 million and higher staffing cost during the year.

The Group's pre-tax earnings declined to \$3.3 million in FY2006, from \$6.2 million in FY2005. As a result, the net profit attributable to shareholders decreased by 64% to \$2.1 million as compared to \$5.7 million in FY2005.

Balance Sheet

Property, plant and equipment maintained at \$24.5 million as at 31 December 2006 as compared to \$25.6 millions in FY2005.

Inventories were unchanged at \$2.0 million as at 31 December 2006.

Contract work-in-progress of \$26.9 million was due to a significant increase in projects in Taiwan. This will be recognized as revenue in early FY2007.

Trade receivables decreased by \$3.7 million or 17.3% compared to those as at 31 December 2005. This was mainly due to more efficient collection for projects completed in China and Taiwan during the year.

Other receivables and prepayments increased by \$1.2 million as compared to those at 31 December 2005 mainly due to advance fee payment to financial institutions in connection with credit facilities and advance payment to suppliers.

Cash and cash equivalents improved by \$22.6 million in FY2006 mainly due to the partial utilization of the US\$21 million and S\$4 million syndicated loan facilities obtained in November 2006.

Trade payables and accrued liabilities decreased by \$2.4 million compared to 31 December 2005. This was mainly due to payment to suppliers for equipment purchased for our municipal projects in Taiwan.

Other Payables increased by \$1.3 million compared to 31 December 2005. This was mainly due to advance billings for our projects in Taiwan.

Short term borrowings of \$9.7 million was mainly the loan obtained from ANZ Bank, Taipei in relation to the financing of the Chu Bei Project.

Long term borrowings increased to \$32.0 million as at 31 December 2006 as compared to \$4.6 million in 31 December 2005. The increase was due to the partial utilization of the US\$21 million and S\$4 million syndicated loan facilities obtained in November 2006.

Cash flow statement

There was a net cash outflow of \$5.7 million to fund operating and investing activities as a result of the substantial increase in projects in FY2006.

Financing activities generated positive cashflow of \$28.4 million in FY2006 mainly from the partial utilization of the US\$21.0 million and S\$4 million credit facilities as mentioned above.

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 FY2005

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's performance for FY2006 was affected by a slowdown in the industrial segment in particular the electronic and semiconductor sectors during the 2nd half of FY2006. However the Group has seen significant demand for industrial water for both the power and the electronic and semiconductor sectors at the last quarter of FY2006 and we expect to close a number of these orders for delivery in FY2007. Consistent with past practice, an announcement will be made to keep shareholders properly informed as and when the accumulated orders become significant.

In addition the Group's performance in the municipal sector for FY2007 will have a better margin than FY2006. In FY2006 revenue from the municipal sector has come from a new source namely, civil construction. Darco's entry into this sector is strategic and with predictably lower margin. For FY2007 analysis of Group performance in the municipal sector, it will be important to note that the Group has delivered slightly more than 10% of the combined municipal projects in Taiwan, namely a joint turnkey project with Leader Construction Co. in Hsin Chu City worth NT1.66 billion (S\$83.8 million) and the NT\$580 million (S\$29.3 million) project undertaken by the Group in Chu Bei City. Most of the revenue contribution from the above projects are to be expected on schedule in FY2007/FY2008. Regarding funding of the abovementioned projects, the Group has already obtained certain project financing facilities of approximately S\$10.9m (including a term loan facility of NTD150m (S\$7.6m)) for in connection with the Hsin Chu project. In addition the Group has also secured a project financing facility totalling NTD262m (S\$13.2m) ANZ Bank, Taipei branch in relation to Chu Bei project.

During the year, the Group has signed letters of intent for 2 new developments in Deqing, Zhejiang, China with a total revenue value of up to S\$180 million over 25 years. One of which is slated to commence construction in 2Q FY2007. This project will provide Darco with an additional and steady revenue stream for the next 25 years. Barring unforeseen circumstances, the Group's prospects for FY2007 is expected to remain positive.

11. Dividend

a) Current Financial Period Reported On

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

Yes

Name of Dividend	:	Final
Dividend Type	:	Cash
Dividend Rate	:	1 cent per ordinary share (tax exempt)

b) Corresponding Period of the Immediately Preceding Financial Year

No

c) Date payable

To be announced later.

d) Books closure date

To be announced later.

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

Not applicable

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

The Group is currently organised into three operating divisions-EE Systems, WM Services and trading. These divisions are the basis on which the group reports its primary segment information.

Principal activities are as follows:

- (i) EE Systems-Designs, fabricates, assembles, installs and commission engineered water systems ("EE Systems") for industrial application;
- (ii) WM Services-Services and maintains product water and waste systems ("WM Services"); and
- (iii) Trading-Trades and supplies chemicals, electrical controls and related instruments used in water treatment systems.

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

Segment information about the business is presented below:

Group

	EE Systems 2006 \$'000	WM Services 2006 \$'000	Trading 2006 \$'000	Consolidated 2006 \$'000
REVENUE				
External sales	54,686	11,370	2,849	68,905
RESULTS				
Segment results	915	2,330	29	3,274
Unallocated corporate expenses				-
Profit before income tax	915	2,330	29	3,274
Income tax				(1,192)
Profit after income tax				2,082
Capital additions	1,739	362	91	2,192
Depreciation and amortisation	973	202	51	1,226
BALANCE SHEET				
ASSETS				
Segment assets	46,699	2,200	870	49,769
Unallocated corporate assets				57,700
Consolidated total assets				107,469
LIABILITIES				
Segment liabilities	19,888	319	500	20,707
Unallocated corporate liabilities				44,203
Consolidated total liabilities				64,910

Group

	EE Systems 2005 \$'000	WM Services 2005 \$'000	Trading 2005 \$'000	Consolidated 2005 \$'000
REVENUE				
External sales	43,830	9,149	2,272	55,251
RESULTS				
Segment results	5,398	793	91	6,282
Unallocated corporate expenses	-	-	-	-
Profit before income tax	1,081	1,499	389	6,282
Income tax				(562)
Profit after income tax				5,720
Capital additions	3,453	721	179	4,353
Depreciation and amortisation	793	166	41	1,000
BALANCE SHEET				
ASSETS				
Segment assets	37,050	3,419	943	41,412
Unallocated corporate assets				37,438
Consolidated total assets				78,850
LIABILITIES				
Segment liabilities	20,085	419	822	21,326
Unallocated corporate liabilities				16,558
Consolidated total liabilities				37,884

The group operates in three principal geographical areas, Singapore, Malaysia and Taiwan. The other geographical segments refer mainly to The People's Republic of China, The Philippines and Indonesia.

The following table provides an analysis of the group's sales by geographical market irrespective of the origin of the goods/services:-

By Geographical Market	Year ended 31-Dec-06	Year ended 31-Dec-05
	(S\$'000)	(S\$'000)
Singapore	4,378	5,723
Malaysia	17,650	18,169
China	5,353	8,625
Taiwan	40,644	21,951
Others	880	783
	68,905	55,251

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

Please see review of turnover above.

15. A breakdown of sales

	GROUP		
	Year ended 31/12/2006	Year ended 31/12/2005	% Inc/(Dec)
	(S\$'000)	(S\$'000)	(S\$'000)
a) Sales reported for first half year	30,880	22,314	38
b) Operating profit/loss after tax before deducting minority interests reported for first half year	2,610	2,154	21
c) Sales reported for second half year	38,026	32,937	15
d) Operating profit/loss after tax before deducting minority interests reported for second half year	(528)	3,566	(115)

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

Total Annual Dividend (Refer to Para 16 of Appendix 7.2 for the required details)

	Latest Full Year (S\$'000)	Previous Full Year (S\$'000)
Ordinary	Nil	Nil
Preference	Nil	Nil
Total	Nil	Nil

BY ORDER OF THE BOARD