

DARCO WATER TECHNOLOGIES LIMITED

Half Year Financial Statement Announcement for the Six Months Ended 30 June 2004

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 half year ended 30 June 2004. Certain items reported for the half year ended 30 June 2003 have been reclassified to conform with this report for the half year ended 30 June 2004.

INCOME STATEMENT

	Notes	Group		
		01-Jan-04 to 30-Jun-04	01-Jan-03 to 30-Jun-03	Change
		(S\$'000)	(S\$'000)	%
Revenue		18,395	13,139	40
Cost of sales		(11,886)	(8,416)	41
Gross profit		6,509	4,723	38
Other operating income	1	186	124	50
Total Income		6,695	4,847	38
Operating expenses				
Selling and Distribution		(1,448)	(1,124)	29
Administrative expenses	2	(2,989)	(2,357)	27
Operating profit		2,258	1,366	65
Financial income		6	6	(4)
Financial expenses		(134)	(73)	82
Profit before tax		2,130	1,299	64
Tax		(296)	(78)	282
Profit after tax		1,834	1,221	50
Minority interests		(179)	(38)	371
Profit attributable to shareholders		1,655	1,183	40

Notes:

1) Included in other operating income are:

	Group		
	01-Jan-04 to 30-Jun-04	01-Jan-03 to 30-Jun-03	Change
	(S\$'000)	(S\$'000)	%
Interest Income	6	6	(4)
Miscellaneous income	52	68	(24)

2) Other credits / (charges) are:

	Group		
	01-Jan-04 to 30-Jun-04	01-Jan-03 to 30-Jun-03	Change
	(S\$'000)	(S\$'000)	%
Amortisation of Goodwill	214	116	85
Pre-operation expenses written off	-	1	nm
Foreign exchange (loss) / gain	83	55	50

3) Included in profit after income tax are:

	Group		
	01-Jan-04 to 30-Jun-04	01-Jan-03 to 30-Jun-03	Change
	(S\$'000)	(S\$'000)	%
Depreciation	297	215	38
Directors' remuneration	233	258	(10)

nm-not meaningful

Additional Information

Segmental Results

	Revenue		Profit Before Tax	
	01-Jan-04 to 30-Jun-04	01-Jan-03 to 30-Jun-03	01-Jan-04 to 30-Jun-04	01-Jan-03 to 30-Jun-03
	(S\$'000)	(S\$'000)	(S\$'000)	(S\$'000)
By Business Activity				
Engineered Environmental Systems	12,150	7,613	1,025	657
Water Management Services	4,745	4,477	1,005	912
Trading (Chemicals & Others)	1,500	1,049	100	(270)
	18,395	13,139	2,130	1,299
By Geographical Market				
Singapore	3,073	2,047		
Malaysia	4,615	3,421		
China	2,380	4,476		
Taiwan	7,053	2,872		
Others	1,274	323		
	18,395	13,139		

Engineered Environmental Systems revenue 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-04	31-Dec-03	30-Jun-04	31-Dec-03
Property, plant and equipment	13,710	13,227	-	-
Investments in subsidiaries	-	-	6,317	6,317
Goodwill on consolidation	856	1,070	-	-
Long Term Trade Receivable	1,081	1,072	-	-
Total Non Current Assets	15,647	15,369	6,317	6,317
Current Assets				
Inventories	2,617	1,673	-	-
Contract work in progress	10,597	1,318	-	-
Trade receivables	14,520	16,589	554	596
Other receivables and prepayments	4,510	2,930	36,208	21,333
Cash and cash equivalents	11,738	5,930	1,154	188
Total current assets	43,982	28,440	37,916	22,117
Current Liabilities				
Trade payables & accrued liabilities	6,208	6,694	45	98
Other payables	600	595	208	208
Provision for taxation	293	116	-	-
Short term borrowing	9,573	2,625	7,649	2,123
Current portion of long term borrowings	1,716	181	1,716	-
Current portion of finance leases	28	26	-	-
Total current liabilities	18,418	10,237	9,618	2,429
Net current assets	25,564	18,203	28,298	19,688
Deferred Tax	46	115	-	-
Long term borrowings	6,785	961	6,783	-
Finance leases	6	21	-	-
Minority interests	2,991	2,959	-	-
	31,383	29,516	27,832	26,005
Shareholders' Equity	31,383	29,516	27,832	26,005

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

Amount repayable in one year or less, or on demand

As at 30/6/2004		As at 31/12/2003	
Secured	Unsecured	Secured	Unsecured
9,393,000	1,924,000	2,831,000	-

Amount repayable after one year

As at 30/6/2004		As at 31/12/2003	
Secured	Unsecured	Secured	Unsecured
6,791,000	-	982,000	-

Details of any collateral

(a) Short term bank loans

About US\$4.5 million (equival. \$7.7 million approx.) of these borrowings are secured by mortgages on the Group's properties, assignment of insurances, fixed and floating charges on the receivables and work-in-progress of various Darco group entities as well as corporate guarantees from various Darco group entities. The balance of short term bank borrowings are unsecured.

(b) Long term bank loans (secured)

Such borrowings are secured by mortgages on the Group's properties, assignment of insurances, fixed and floating charges on the receivables and work-in-progress of various Darco group entities as well as 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

	Half Year Ended	
	30-Jun-04	30-Jun-03
	S\$'000	S\$'000
Cash Flows from Operating Activities		
Profit before exceptional items and taxation	2,130	1,299
Adjustments for :-		
Depreciation expense	297	215
Amortisation of goodwill on consolidation	214	116
Interest income	(6)	(6)
Interest expense	134	73
Operating profit before changes in working capital	2,769	1,697
Changes in working capital:-		
(Increase)/Decrease in Inventories	(945)	(412)
(Increase)/Decrease in Contract Work In Progress	(9,279)	(3,051)
(Increase)/Decrease in trade receivables	1,916	(2,921)
(Increase)/Decrease in other receivables	(1,580)	(151)
(Decrease)/Increase in trade creditors and accruals	(487)	1,170
(Decrease)/Increase in other creditors	1,540	2,889
Cash used in Operations	(6,066)	(779)
Interest received	6	6
Interest paid	(134)	(73)
Income taxes paid	(188)	(29)
Net Cash used in Operating Activities	(6,382)	(875)
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(780)	(2,614)
Net Cash generated from Investing Activities	(780)	(2,614)
Cash Flows from Financing Activities		
Proceeds from issuance of shares	-	12,750
Listing expenses	-	(621)
Acquisition of subsidiaries - net cash acquired	-	1,031
Long Term Loan borrowings	6,783	-
Short term borrowings	9,485	-
Finance lease Creditors	-	-
Repayment of Long-Term loan	(959)	(54)
Repayment of Short-Term loan	(2,537)	(690)
Repayment of Finance lease Creditors	(14)	(9)
Net Cash generated from Financing Activities	12,758	12,407
Net effect of exchange rate changes in consolidation foreign subsidiaries	212	82
Net (Decrease)/Increase in Cash and cash equivalent	5,808	9,000
Cash and Cash Equivalents at beginning of the year	5,930	3,121
Cash and cash equivalent at end of the year	11,738	12,121

Summary of effect of acquisition of subsidiaries

Plant & equipment

0	65
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Current assets	0	2,182
Current liabilities	0	(1,621)
Minority interests acquired	0	(250)
Total net assets	0	376
Goodwill	0	624
Total purchase consideration	0	1,000
Less: Portion discharged by issuance of shares	0	(1,000)
	-	-
Less: Cash of subsidiaries acquired	0	(1,031)
Cash flow outflow/(inflow) on acquisition, net of cash acquired	0	(1,031)

Note: No acquisition of subsidiaries were made by the Group in the half year ended 30 June 2004.

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 2004

	GROUP					
	Share Capital (S\$'000)	Share Premium (S\$'000)	Capital Reserves (S\$'000)	Revenue Reserves (S\$'000)	Exchange Reserves (S\$'000)	Total (S\$'000)
Balance at 1 January 2004	9,060	16,941	-	4,059	(544)	29,516
Net profit for the period	-	-	-	1,655	-	1,655
Currency translation difference	-	-	-	-	212	212
Balance at 30 June 2004	9,060	16,941	-	5,714	(332)	31,383

Half year ended 30 June 2003

	Share Capital (S\$'000)	Share Premium (S\$'000)	Capital Reserves (S\$'000)	Revenue Reserves (S\$'000)	Exchange Reserves (S\$'000)	Total (S\$'000)
	Balance at 1 January 2003	7,448	5,413	-	1,714	(284)
New ordinary shares issued for acquisition of PV Vacuum Engineering Pte Ltd	112	879	-	-	-	991
Placement of 30,000,000 ordinary shares	1,500	10,638	-	-	-	12,138
Net profit for the period	-	-	-	1,183	-	1,183
Currency translation difference	-	-	-	-	82	82
Balance at 30 June 2003	9,060	16,930	-	2,897	(202)	28,685

Half year ended 30 June 2004

	COMPANY					
	Share Capital (S\$'000)	Share Premium (S\$'000)	Capital Reserves (S\$'000)	Revenue Reserves (S\$'000)	Exchange Reserves (S\$'000)	Total (S\$'000)
Balance at 1 January 2004	9,060	16,941	-	4	-	26,005
Net profit for the period	-	-	-	1,827	-	1,827
Currency translation difference	-	-	-	-	-	-
Balance at 30 June 2004	9,060	16,941	-	1,831	-	27,832

Half year ended 30 June 2003

	Share Capital (S\$'000)	Share Premium (S\$'000)	Capital Reserves (S\$'000)	Revenue Reserves (S\$'000)	Exchange Reserves (S\$'000)	Total (S\$'000)
	Balance at 1 January 2003	7,448	5,413	-	1	-
New ordinary shares issued for acquisition of PV Vacuum Engineering Pte Ltd	112	879	-	-	-	991
Placement of 30,000,000 ordinary shares	1,500	10,638	-	-	-	12,138
Net loss for the period	-	-	-	(149)	-	(149)
Currency translation difference	-	-	-	-	-	-

Balance at 30 June 2003

9,060	16,930	-	(148)	-	25,842
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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

Issued and fully paid ordinary shares of S\$0.05
As at beginning of period

Issued during the half year
As at end of period

Half year to 30/6/2004 (S\$'000)	Half year to 31/12/2003 (S\$'000)
9,060	9,060
-	-
9,060	9,060

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

2. Whether the figures have been audited, or reviewed and in accordance with which standard (e.g. the Singapore Standard on Auditing 910 (Engagements to Review Financial Statements), or an equivalent standard)

The figures have not been audited or reviewed 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 have been followed as in the audited financial statement for the year ended 31 December 2003.

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

Not Applicable

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)

Group	
01-Jan-04 to 30-Jun-04	01-Jan-03 to 30-Jun-03
Cents	Cents
0.91	0.68
0.91	0.68
Weighted average number of ordinary shares used to compute basic earnings per share	181,189,517
Effect of dilutive share options	-
Weighted average number of ordinary shares used to compute fully diluted earnings per share	181,189,517

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

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.

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

Group		Company	
As at 30/6/2004	As at 31/12/2003	As at 30/6/2004	As at 31/12/2003
Cents	Cents	Cents	Cents
17.32	16.29	15.36	14.35

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 on 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 financial period reported on

The Group recorded growth in revenue and profit in the first half of 2004 despite challenging market conditions.

Revenue

For 1H FY2004, group revenue rose 40% to \$18.4 million. The growth was mainly contributed by Engineered Environmental Systems ("EE Systems") which increased by 60% to \$12.1 million. Water Management Services ("WM Services") generated \$4.7 million reflecting a marginal increase of 6% as compared to 1H FY2003. Trading (Chemical and others) increased by \$0.45 million or 43% as compared to 1H FY2003. Group revenue remained well diversified, with EE Systems and WM Services accounting for 66% and 26% of the group revenue respectively in 1H FY2004.

The significant increase in revenue for EE Systems was largely due to the geographical expansion into new markets primarily China and Taiwan and contribution from a 60% owned subsidiary, PV Vacuum Engineering Pte Ltd, which the Group acquired in March 2003.

Since its listing, the Group has focused its attention on the vast markets in North East Asia. The Taiwan and China markets recorded revenue of \$7.1 million and \$2.4 million respectively in 1 H FY2004. Together, the North East Asian market accounted for 51% of group revenue in 1H FY2004.

Profitability

With higher revenue, gross profit rose 38% to \$6.5 million. Gross profit margin was maintained at 35.4% as compared to 35.9% in 1H FY2003.

The Group incurred \$1.4 million in selling and distribution expenses for 1H FY2004 to support the increased business activities. The increase of approximately \$0.3 million from that of 1H FY2003 was primarily due to higher travelling costs for our sales and management team to pursue new customers in the Philippines and Indonesia and to secure projects in Taiwan and China. The sales and management team in Singapore and Malaysia will continue to provide sales and technical support to the Group's overseas subsidiaries in marketing to potential new customers.

The Group's administrative expenses increased by \$0.6 million to \$2.9 million in 1H FY2004. This was mainly the result of an increase in local staffing in Taiwan and China.

In line with the significant increase in revenue, the Group's profit before tax increased by 64% to \$2.1 million and net profit attributable to shareholders by 40% to \$1.7 million as compared to \$1.3 million and \$1.2 million respectively in 1H FY2003. The Group's effective tax rate has increased from 6% in 1H FY2003 to 14% in 1H FY2004 because a higher proportion of profit was derived from countries with higher tax rates.

Balance Sheets

Property, plant and equipment increased by \$0.5 million as at 30 June 2004, an increase of 4% compared to 31 December 2003. This increase was mainly due to the purchase of plant and machinery by a China subsidiary.

Long term trade receivables consist mainly of the retention monies amounting to 15% of the contract sum retained by a customer for a municipal project in Taiwan in accordance with the contractual terms.

Inventories increased by \$0.9 million or 56% to \$2.6 million as at 31 December 2003 mainly to support the higher EE Systems sales. Contract work-in-progress was \$9.3 million higher as a result of a significant increase in projects. Revenue for most of these projects will be recognised in 2H FY2004.

Trade receivables decreased by \$2 million or 12% compared to those as at 31 December 2003. This was mainly due to collection of receivables for projects completed in Taiwan.

Other receivables and prepayments increased by \$1.6 million as compared to those at 31 December 2003 mainly due to advance fee payment to secure loan facilities.

Cash and cash equivalents improved by \$5.8 million in 1H FY2004 mainly due to the US\$9.5 million loan facility which is further explained below.

Trade payables and accrued liabilities decreased marginally by \$0.5 million compared to 31 December 2003. This was mainly due to payment to suppliers for equipment purchased for our projects in Taiwan.

Short term borrowings increased from \$2.6 million as at 31 December 2003 to \$9.6 million as at 30 June 2004. Long term borrowings increased to \$6.8 million as at 30 June 2004. The increase in short term and long term borrowings was due to the Group securing US\$9.5 million of credit facilities in March 2004 the proceeds of which were used to refinance existing short term and long term borrowings as well as to finance the Group's projects in China and Taiwan.

Cash flow statement

There was a net cash outflow of \$7.2 million to fund operating and investing activities as a result of the substantial increase in projects in 1H FY2004.

Financing activities generated positive cashflow of \$12.8 million in 1H FY2004 mainly from the utilization of the US\$9.5 million of 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 broadbased and are in line with the statement made in the announcement of the full year results for FY2003.

10. A commentary at the date of the announcement of the 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 expects the business environment in its major markets to remain challenging for the rest of FY2004. In spite of these difficulties, the Group will reap the benefits of geographical diversification, and expects its overseas operations in Taiwan, China, the Philippines and Indonesia to continue to contribute to group performance.

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 2004.

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 I(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

BY ORDER OF THE BOARD