

# DARCO WATER TECHNOLOGIES LIMITED (200106732C)

## Half Year Financial Statement And Dividend Announcement for the six month ended 30 June 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 half the year ended 30 June 2006. Certain items reported for the half year ended 30 June 2005 have been reclassified to conform with this report for the half year ended 30 June 2006.

#### INCOME STATEMENT

	Notes	Group		
		01-Jan-06 to 30-Jun-06	01-Jan-05 to 30-Jun-05	Change
		(S\$'000)	(S\$'000)	%
Revenue		30,880	22,314	38
Cost of sales		(23,135)	(15,487)	49
<b>Gross profit</b>		<b>7,745</b>	<b>6,827</b>	<b>13</b>
Financial income	1	93	71	31
Financial expenses	1	(666)	(229)	191
Distribution cost		(1,377)	(1,438)	(4)
Administrative expenses		(2,779)	(2,740)	1
Other credits / (charges)	2	-	-	-
<b>Profit before tax</b>		<b>3,016</b>	<b>2,491</b>	<b>21</b>
Income tax (expense)/credit		(405)	(337)	20
<b>Profit for the year</b>	3	<b>2,611</b>	<b>2,154</b>	<b>21</b>
<b>Attributable to:</b>				
Equity holders of the company		2,376	2,026	17
Minority interests		235	128	84
		<b>2,611</b>	<b>2,154</b>	<b>21</b>

#### Notes:

1) Included in financial income (expenses) are:

	Group		
	01-Jan-06 to 30-Jun-06	01-Jan-05 to 30-Jun-05	Change
	(S\$'000)	(S\$'000)	%
Interest Income	37	7	429
Miscellaneous income from subsidiaries	54	64	(16)
Foreign exchange adjustment (loss)/gain	(77)	76	(201)
Bad debts written off on trade receivables	0	(13)	(100)
Interest expense	(587)	(292)	101
	<b>(573)</b>	<b>(158)</b>	<b>263</b>

Presented in the income statement as:

Financial income	93	71	31
Financial expense	(666)	(229)	191
Finance income and (expense) net	<b>(573)</b>	<b>(158)</b>	<b>263</b>

2) Other credits / (charges) are:

	Group		
	01-Jan-06 to 30-Jun-06	01-Jan-05 to 30-Jun-05	Change
	(S\$'000)	(S\$'000)	%
Amortisation of goodwill	-	-	nm
Pre-operation expenses written off	-	-	nm
Gain/(Loss) on disposal of plant and equipment	-	-	nm

3) Included in profit after income tax are:

Group		
01-Jan-06 to 30-Jun-06	01-Jan-05 to 30-Jun-05	Change
(S\$'000)	(S\$'000)	%
321	322	(0)
237	237	(0)

Depreciation

Directors' remuneration

nm-not meaningful

### **Additional Information**

#### **Segmental Results**

By Business Activity

Engineered Environmental Systems Sales

WM Services Sales

Trading (Chemicals & Others)

By Geographical Market

Singapore

Malaysia

China

Taiwan

Others

Revenue		Profit Before Tax	
01-Jan-06 to 30-Jun-06	01-Jan-05 to 30-Jun-05	01-Jan-06 to 30-Jun-06	01-Jan-05 to 30-Jun-05
(S\$'000)	(S\$'000)	(S\$'000)	(S\$'000)
28,033	17,056	2,730	2,094
2,200	3,985	246	354
647	1,273	40	43
30,880	22,314	3,016	2,491
1,712	2,284		
10,575	7,818		
1,355	3,047		
16,867	8,093		
371	1,072		
30,880	22,314		

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-06	31-Dec-05	30-Jun-06	31-Dec-05
Property, plant and equipment	25,611	25,586	-	-
Investments in subsidiaries	-	-	7,376	7,376
Goodwill on consolidation	1,265	1,266	-	-
Long Term Trade Receivable	-	-	-	-
<b>Total Non Current Assets</b>	26,876	26,852	7,376	7,376
<b>Current Assets</b>				
Inventories	1,777	1,966	-	-
Contract work in progress	22,748	17,317	-	-
Trade receivables	19,970	21,265	685	370
Other receivables and prepayments	5,021	4,102	43,154	38,094
Cash and cash equivalents	13,383	7,348	779	722
<b>Total current assets</b>	62,899	51,998	44,618	39,186
<b>Current Liabilities</b>				
Trade payables & accrued liabilities	11,975	12,635	-	-
Contract work in progress	3,310	4,134	-	-
Other payables	4,173	4,272	2,916	3,919
Provision for taxation	318	309	-	-
Short term borrowing	9,313	9,934	6,663	7,502
Current portion of long term borrowings	2,240	1,886	2,240	1,667
Current portion of finance leases	-	-	-	-
<b>Total current liabilities</b>	31,329	33,170	11,819	13,088
<b>Net current assets</b>	31,570	18,828	32,799	26,098
Deferred Tax	117	130	-	-
Long term borrowings	14,790	4,584	12,011	4,584
Minority interests	3,008	2,774	-	-
	40,531	38,193	28,164	28,890
Shareholders' Equity	40,531	38,193	28,164	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 30/06/2006	
Secured	Unsecured
11,553,000	-

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

Amount repayable after one year

As at 30/06/2006	
Secured	Unsecured
14,790,000	-

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

**Details of any collateral****(a) Short term bank loans**

About US\$4.5 million (equival. \$7.5 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 immediately preceding financial year****CASH FLOW STATEMENT****Cash Flows from Operating Activities****Profit before taxation**

Adjustments for :-

Depreciation expense

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

Increase in fixed deposit with bank

Net Cash used in Investing Activities

**Cash Flows from Financing Activities**

Repayment of Short term borrowings

Term loan Facility

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-06	30-Jun-05
S\$'000	S\$'000
3,016	2,491
321	322
(38)	(7)
589	292
3,888	3,098
189	(302)
(6,255)	(661)
1,293	(1,910)
(917)	(1,527)
(660)	(2)
(99)	294
(2,561)	(1,010)
38	7
(589)	(292)
(409)	(534)
(3,521)	(1,829)
(25)	(214)
-	1,577
(25)	1,363
(621)	(53)
10,559	(1,670)
-	(13)
9,938	(1,736)
(356)	859
6,036	(1,343)
4,283	9,619
10,319	8,276

**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 2006**

	Share Capital (S\$'000)	Share Premium (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	9,223	17,839	11,522	(392)	38,192	2,774	40,966
Net profit for the period	-		2,375	-	2,375	235	2,610
Transfer from share premium account to share capital upon implementation of the Companies (Amendment) Act 2005	17,839	(17,839)					
Currency translation difference	-		-	(36)	(36)	0	(36)
Balance at 30 June 2006	27,062	-	13,897	(428)	40,531	3,009	43,540

**At 30 June 2005**

	Share Capital (S\$'000)	Share Premium (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 2005	9,060	16,941	5,872	(842)	31,031	3,207	34,238
New ordinary shares issued for acquisition of PV Vacuum Engineering Pte Ltd	163	896	-	-	1,059	-	1,059
Net profit for the period	-		2,025	-	2,025	(404)	1,621
Currency translation difference	-		-	862	862	-	862
Balance at 30 June 2005	9,223	17,837	7,897	20	34,977	2,803	37,780

**At 30 June 2006**

	Share Capital (S\$'000)	Share Premium (S\$'000)	Retained Earnings (S\$'000)	Total (S\$'000)
Balance at 1 January 2006	9,223	17,839	1,829	28,891
Net profit for the period	-		(727)	(727)
Transfer from share premium account to share capital upon implementation of the Companies (Amendment) Act 2005	17,839	(17,839)		
Balance at 30 June 2006	27,062	-	1,102	28,164

**At 30 June 2005**

	Share Capital (S\$'000)	Share Capital (S\$'000)	Retained Earnings (S\$'000)	Total (S\$'000)
Balance at 1 January 2005	9,060	16,941	1,278	27,279
New ordinary shares issued for acquisition of PV Vacuum Engineering Pte Ltd	163	896	-	1,059
Net profit for the period	-		(259)	(259)
Balance at 30 June 2005	9,223	17,837	1,019	28,079

**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**

Ordinary Shares	30/06/2006 (S\$'000)	31/12/2005 (S\$'000)
As at beginning of period (1/1/2006)	184,456,812	9,223
Issued during the year	-	163
As at end of period	184,456,812	9,223

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

In accordance with the Companies (Amendment) Act 2005 effective 30 January 2006, the concept of authorized share capital is abolished and the amount in the share premium account as of 30 January 2006 becomes part of the Company's share capital.

**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**

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)

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-06 to 30-Jun-06	01-Jan-05 to 30-Jun-05
Cents	Cents
1.29	1.10
1.29	1.10
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.**

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	
As at 30/06/2006	As at 31/12/2005
Cents	Cents
21.97	20.70

Company	
As at 30/06/2006	As at 31/12/2005
Cents	Cents
15.27	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.**

The Group recorded growth in revenue and profit for the first half of 2006 despite challenging market conditions.

**Revenue**

Group revenue rose 38.4% to \$30.9 million in 1H FY2006 as compared to 1H FY2005. The growth was mainly due to a 64.3% increase in revenue of Engineered Environmental Systems ("EE Systems") to \$28.0 million as compared to \$17.0 million in 1H FY2005. Municipal sector contributed \$16.5 million or 53.6% of the total group revenue as compared to \$6.5 million or 29.3% in 1H FY2005. Projects for the municipal sector increased 153% in value as compared to its corresponding period last year while projects for industrial sector recorded a lower contribution in 1HFY2006 of 37.2% or \$11.5 million of the group revenue as compared to 47.2% or \$10.5 million in 1H FY2005. The increase in municipal sector was mainly due to the 2 new municipal projects secured by the group in Taiwan, namely Ker Ya and Chu Bei.

Water Management Services ("WM Services") generated \$2.2 million in revenue, a decline of \$1.8 million from \$4.0 million in 1H FY2005 due to the completion of a major waste water management contract. Trading (Chemical and others) decreased by \$0.6 million or 49.2% as compared to 1H FY2005.

**Profitability**

Gross profit rose 13.5% to \$7.7 million in 1H FY2006. However, overall gross profit margin decreased to 25.1% for 1H FY2006 from 30.6% for 1H FY2005. This decline was mainly due to a larger portion of the group revenue being generated from the municipal sector (mainly civil works). Profit margin for civil works in municipal sector is normally lower. The decline in services and trading sales by 44.8% and 49.2% as mentioned above has also effected the overall gross profit margin. However, we foresee that services and trading sales will improve for 2H FY2006 as revenue from Deqing BOT project has started flowing in since 2Q FY2006.

The Group's financial expenses increased by \$0.4 million due to the increase in interest charged and professional fee on the additional US\$5.0 million credit facilities obtained in February 2006 as well as impact from the increased in US\$ SIBOR for the existing US\$9.5 million credit facilities obtained in March 2004.

The Group incurred \$1.4 million in selling and distribution expenses for 1H FY2006 on the back of increase in its business activities.

The Group's pre-tax earnings increased 21.1% to \$3.0 million in 1H FY2006, from \$2.5 million in 1H FY2005. As a result, the net profit attributable to shareholders increased by 21.2% to \$2.6 million as compared to \$2.2 million in 1H FY2005.

**Balance Sheet**

Inventories decreased \$0.2 million to \$1.8 million as at 30 June 2006 as inventories were use to support the higher EE Systems sales. Contract work-in-progress of \$22.7 million was as a result of a significant increase in projects in Taiwan. Revenue for these projects will be recognised in FY2006 and FY2007.

Trade receivables decreased by \$1.3 million or 15.6% compared to those as at 31 December 2005. This was mainly collections received from projects completed in China and Taiwan.

Other receivables and prepayments increased by \$0.9 million as compared to those at 31 December 2005 mainly due to advance fee payment to secure loan facilities and advance payments to suppliers.

Cash and cash equivalents were higher by \$4.1 million in 1H FY2006 mainly due to utilisation of the US\$5.0 million additional credit facilities obtained by the group during the year.

Trade payables and accrued liabilities decreased by \$0.7 million compared to 31 December 2005. This was mainly due to payments made to suppliers for equipment purchased for our municipal projects in Taiwan.

Short term borrowings decreased from \$0.6 million as at 30 June 2006 to \$9.3 million. This was mainly due repayment made during the year.

Long term borrowings increased to \$14.8 million as at 30 June 2006 as compared to \$4.6 million in 31 December 2005.

The increase was due to the Group securing US\$5.0 million of credit facilities obtained in February 2006.

**Cash flow statement**

There was a net cash outflow of \$3.5 million to fund operating and investing activities as a result of the increase in group's business activities in 1H FY2006. Financing activities generated a positive cashflow of \$9.9 million in 1H FY2006 mainly from the proceeds of the US\$5.0 million of additional 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 1H FY2006 was affected by slowdown in the electronic and semiconductor sectors. However the Group expects the two sectors to improve in 2H FY2006. Despite challenging business environment for FY2006, the Group's performance is expected to be positive with the on going two municipal projects in Taiwan, namely a joint turnkey project with Leader Construction Co. in Hsin Chu City worth NT1.66 billion (S\$83.8m) and the NT\$580m (S\$29.3m) project solely undertaken by the Group in Chu Bei City. 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 Hsn Chu project. In addition the Group has also secured a project financing facility totalling NTD262m (S\$13.2m) ANZ Bank, Taiwan branch in relation to Chu Bei project.

While executing the above projects, the Group has signed letters of intent for 2 new developments in Deqing, Zhejiang, China with a total revenue value of up to S\$180m over 15 years. This project will provide Darco with an additional strong and steady revenue stream for the next 15 years. Barring unforeseen circumstances, the Group's prospects for FY2006 is expected to remain positive.

**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 2006.

**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

**BY ORDER OF THE BOARD**