

DARCO WATER TECHNOLOGIES LIMITED (200106732C)

Half Year Financial Statement Announcement for the Six Months Ended 30 June 2005

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 2005.

INCOME STATEMENT

	Notes	Group		
		1-Jan-05 to 30-Jun-05	1-Jan-04 to 30-Jun-04	Change
		(S\$'000)	(S\$'000)	%
Turnover		22,314	18,395	21
Cost of sales		(15,487)	(11,886)	30
Gross profit		6,827	6,509	5
Other operating income	1	186	192	(3)
Total Income		7,013	6,701	5
Operating expenses				
Selling and Distribution		(1,438)	(1,448)	(1)
Administrative expenses		(2,868)	(2,858)	0
Other credits / (charges)	2	76	(131)	(158)
Operating profit		2,783	2,264	23
Financial expenses		(292)	(134)	119
Profit before tax		2,491	2,130	17
Tax		(337)	(296)	14
Profit after tax		2,154	1,834	17
Minority interests		(128)	(179)	(29)
Profit attributable to shareholders		2,026	1,655	22

Notes:

1) Included in other operating income are:

	Group		
	1-Jan-05 to 30-Jun-05	1-Jan-04 to 30-Jun-04	Change
	(S\$'000)	(S\$'000)	%
Interest Income	7	6	22
Miscellaneous income	56	52	8

2) Other credits / (charges) are:

	Group		
	1-Jan-05 to 30-Jun-05	1-Jan-04 to 30-Jun-04	Change
	(S\$'000)	(S\$'000)	%
Amortisation of Goodwill	-	(214)	(100)
Foreign exchange (loss) / gain	76	83	(8)

There is no goodwill amortisation for 1H FY2005 because group has adopted FRS103.

3) Included in profit after income tax are:

Group		
1-Jan-05 to 30-Jun-05 (S\$'000)	1-Jan-04 to 30-Jun-04 (S\$'000)	Change %
322	297	9
237	233	2

Depreciation
Directors' remuneration

nm-not meaningful

Additional Information

Segmental Results

	Revenue		Profit Before Tax	
	1-Jan-05 to 30-Jun-05 (S\$'000)	1-Jan-04 to 30-Jun-04 (S\$'000)	1-Jan-05 to 30-Jun-05 (S\$'000)	1-Jan-04 to 30-Jun-04 (S\$'000)
By Business Activity				
Engineered Environmental Systems Sales	17,056	12,150	2,094	1,025
WM Services Sales	3,985	4,745	354	1,005
Trading (Chemicals & Others)	1,273	1,500	43	100
	22,314	18,395	2,491	2,130
By Geographical Market				
Singapore	2,284	3,073		
Malaysia	7,818	4,615		
China	3,047	2,380		
Taiwan	8,093	7,053		
Others	1,072	1,274		
	22,314	18,395		

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-05	31-Dec-04	30-Jun-05	31-Dec-04
Property, plant and equipment	21,439	21,547	-	-
Investments in subsidiaries	-	-	7,376	6,317
Goodwill on consolidation	1,265	735	-	-
Long Term Trade Receivable	-	1,035	-	-
Total Non Current Assets	22,704	23,317	7,376	6,317
Current Assets				
Inventories	2,625	2,322	-	-
Trade receivables	26,915	23,970	700	706
Other receivables and prepayments	4,580	3,052	37,453	38,485
Cash and cash equivalents	9,278	11,196	651	312
Total current assets	43,398	40,540	38,804	39,503
Current Liabilities				
Trade payables & accrued liabilities	4,745	4,747	-	242
Contract work in progress	3,174	3,835	-	-
Other payables	4,674	4,379	3,862	3,138

Provision for taxation	389	478	(82)	-
Short term borrowing	8,379	7,429	7,376	7,376
Current portion of long term borrowings	1,661	2,144	1,661	1,639
Current portion of finance leases	8	21	-	-
Total current liabilities	23,030	23,033	12,817	12,395
Net current assets	20,368	17,507	25,987	27,108
Deferred Tax	8	115	-	-
Long term borrowings	5,284	6,471	5,284	6,146
Minority interests	2,803	3,207	-	-
	34,977	31,031	28,079	27,279
Shareholders' Equity	34,977	31,031	28,079	27,279

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

Amount repayable in one year or less, or on demand

As at 30/6/2005		As at 31/12/2004	
Secured	Unsecured	Secured	Unsecured
9,037,000	1,011,000	9,015,000	579,000

Amount repayable after one year

As at 30/6/2004		As at 31/12/2004	
Secured	Unsecured	Secured	Unsecured
5,284,000	-	6,146,000	325,000

Details of any collateral

(a) Short term bank loans

About US\$4.5 million (equival. \$7.4 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

Cash Flows from Operating Activities

Profit before exceptional items and taxation

Adjustments for :-

Depreciation expense

Amortisation of goodwill on consolidation

Interest income

Interest expense

Operating profit before changes in working capital

Changes in working capital:-

(Increase)/Decrease in Inventories

(Increase)/Decrease in Contract Work In Progress

	Half Year Ended	
	30-Jun-05	30-Jun-04
	S\$'000	S\$'000
Profit before exceptional items and taxation	2,491	2,130
Depreciation expense	322	297
Amortisation of goodwill on consolidation	(0)	214
Interest income	(7)	(6)
Interest expense	292	134
Operating profit before changes in working capital	3,098	2,769
(Increase)/Decrease in Inventories	(302)	(945)
(Increase)/Decrease in Contract Work In Progress	(661)	(9,279)

(Increase)/Decrease in trade receivables	(1,910)	1,916
(Increase)/Decrease in other receivables	(1,527)	(1,580)
Increase/(Decrease) in trade creditors and accruals	(2)	(487)
Increase/(Decrease) in other creditors	294	1,540
Cash used in Operations	(1,010)	(6,066)
Interest received	7	6
Interest paid	(292)	(134)
Income taxes paid	(534)	(188)
Net Cash used in Operating Activities	(1,829)	(6,382)
Cash Flows from Investing Activities		
Decrease in fixed deposit	1,577	-
Purchase of property, plant and equipment	(214)	(780)
Net Cash generated from Investing Activities	1,363	(780)
Cash Flows from Financing Activities		
Long Term Loan borrowings	-	6,783
Short term borrowings	-	9,485
Repayment of Long Term loan	(1,670)	(959)
Repayment of Short-Term loan	(53)	(2,537)
Repayment of Finance lease Creditors	(13)	(14)
Net Cash generated from Financing Activities	(1,736)	12,758
Net effect of exchange rate changes in consolidation foreign subsidiaries	859	212
Net (Decrease)/Increase in Cash and cash equivalent	(1,343)	5,808
Cash and Cash Equivalents at beginning of the year	9,619	5,930
Cash and cash equivalent at end of the year	8,276	11,738

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 2005

	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 2005	9,060	16,941	-	5,872	(842)	31,031
New ordinary shares issued for acquisition of PV Vacuum Engineering Pte Ltd	163	896				1,059
Net profit for the period	-	-	-	2,025	-	2,025
Currency translation difference	-	-	-	-	862	862
Balance at 30 June 2005	9,223	17,837	-	7,897	20	34,977

Half year ended 30 June 2004

	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 2005

	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 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 loss for the period	-	-	-	(259)	-	(259)
Balance at 30 June 2005	9,223	17,837	-	1,019	-	28,079

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 loss for the period	-	-	-	1,827	-	1,827
Balance at 30 June 2004	9,061	16,941	-	1,831	-	27,832

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

	Half year to 30/6/2005 (S\$'000)	Half year to 31/12/2004 (S\$'000)
Issued and fully paid ordinary shares of S\$0.05 As at beginning of period	9,060	9,060
Issued during the half year As at end of period	163	-
	9,223	9,060

There are no outstanding securities as at 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 2004, except as described in paragraph 5.

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

The group has adopted all the new Singapore Financial Reporting Standards ("FRS") that are mandatory for financial years beginning on or after 1 January 2005.

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	
	1-Jan-05 to 30-Jun-05	1-Jan-04 to 30-Jun-04
	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)	1.10	0.91
b) On a fully diluted basis (cents)	1.10	0.91
Weighted average number of ordinary shares used to compute basic earnings per share	184,456,812	181,189,517
Effect of dilutive share options	-	-
Weighted average number of ordinary shares used to compute fully diluted earnings per share	184,456,812	181,189,517

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 30/6/2005 Cents	As at 31/12/2004 Cents	As at 30/6/2005 Cents	As at 31/12/2004 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	18.96	17.13	15.22	15.06

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 2005 despite challenging market conditions.

Revenue

Group revenue rose 21% to \$22.3 million in 1H FY2005 as compared to 1H FY2004. The growth was mainly due to the 40.4% increase in revenue of Engineered Environmental Systems ("EE Systems") to \$17.1 million from the Industrial sector. Water Management Services ("WM Services") generated \$4.0 million, a decline of 16.0% from \$4.7 million in 1H FY2004. This was due to the completion of a major municipal waste water management contract. Trading (Chemical and others) decreased by \$0.22 million or 15.1% to \$1.3 million as compared to FY2004 mainly from poor sales from plating chemicals. Group revenue remained well diversified, with EE Systems and WM Services accounting for 76.4% and 17.9% of group revenue respectively in 1H FY2005.

The significant increase in revenue for industrial EE Systems was largely contributed by Taiwan and Malaysia markets. Taiwan recorded the highest revenue of \$8.1 million followed by Malaysia of \$7.8 million and the rest of \$6.4 million.

Profitability

Gross profit improved by 5% to \$6.8 million in 1H FY2005. However, gross profit margin declined to 30.6% as compared to 35.4% in 1H FY2004. This was mainly due to steep increases in steel price as well as fuel price, the latter constituting a significant portion of project costs, particularly in the case of the soil remediation project in Taiwan. The project is completed in 1H FY2005.

The increase in financial expenses was mainly for the bank interest on the US\$9.5 million credit facilities obtained by the Group in March 2004.

Group's profit before tax increased by 17% to \$2.5 million and net profit attributable to shareholders by 22% to \$2.0 million as compared to \$2.1 million and \$1.7 million respectively in 1H FY2004. The Group's effective tax rate remains at 14% in 1H FY2005.

Balance Sheets

Goodwill on consolidation increased from \$0.7 million in 1H FY2004 to \$1.3 million in 1H FY2005 as a result of acquiring 100,000 ordinary shares of \$1.00 in PV Vacuum Engineering Pte Ltd (PV Vacuum) in January 2005, representing 40% of its issued and paid up capital. PV Vacuum became a wholly-owned subsidiary of the company upon the acquisition. Long term trade receivable of \$1 million in 1H FY2004 which consist of the retention monies amounting to 15% of the contract sum retained by a customer for a municipal project in Taiwan has become payable and reclassified under trade receivables.

Inventories increased by \$0.3 million or 13% to \$2.6 million as at 30 June 2005 mainly to support the higher EE Systems sales. Trade receivables increased by \$2.9 million compared to that of 31 December 2004, an increase of 12% as a result of higher number of new projects in Malaysia and Taiwan.

Other receivables and prepayments increased by \$1.6 million as compared to those at 31 December 2004 mainly due to advance to suppliers for projects in Taiwan.

Cash and cash equivalents declined by \$1.9 million in 1H FY2005 mainly due to progressive repayment of the US\$9.5 million credit facilities and financing on new projects..

Short term borrowings increased from \$7.4 million as at 31 December 2004 to \$8.4 million as at 30 June 2005. These was due to fresh loan obtained from banks for Taiwan and Malaysia entities on clean basis.

Long term borrowings decreased by \$1.2 million as a result of repayment for the US\$9.5 million credit facilities obtained in March 2004.

Cash flow statement

There was a net cash outflow of \$0.4 million to fund operating and investing activities as a result of the substantial increase in projects 1H FY2005. Financing activities generated negative cashflow of \$1.7 million in 1H FY2005 mainly due to repayment of the US\$9.5 million credit facilities 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 FY2004.

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 FY2005. 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 2005.

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