DARCO WATER TECHNOLOGIES LIMITED (200106732C)

Full Year Financial Statement And Dividend Announcement for the year ended 31 December 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 year ended 31 December 2005. Certain items reported for the year ended 31 December 2004 have been reclassified to conform with this report for the year ended 31 December 2005.

INCOME STATEMENT	Notes	Group		
		Year ended 31-Dec-05	Year ended 31-Dec-04	Change
		(S$'000)	(S$'000)	%
Revenue		55,251	50,618	9
Cost of sales		(38,047)	(35,812)	6
Gross profit		17,204	14,806	16
Financial income	1	191	307	(38)
Financial expenses	1	(2,116)	(1,673)	27
Distribution cost		(3,061)	(3,582)	(15)
Administrative expenses		(5,940)	(6,489)	(8)
Other credits / (charges)	2	4	(400)	-
Profit before tax		6,282	2,969	112
Income tax (expense)/credit		(562)	(908)	(38)
Profit for the year	3	5,720	2,061	178
Attributable to:				
Equity holders of the company		5,650	1,813	212
Minority interests		70	248	(72)
		5,720	2,061	178

Notes:

1) Included in financial income (expenses) are:

	Group		
	Year ended 31-Dec-05	Year ended 31-Dec-04	Change
	(S$'000)	(S$'000)	%
Interest Income	49	36	36
Miscellaneous income from subsidiaries	142	46	208
Foreign exchange adjustment (loss)/gain	(414)	225	(284)
Bad debts written off on trade receivables	(455)	-	nm
Bad debts written off on other receivables	(60)	-	nm
Provision for impairment on trade receivables	(3)	(1,258)	nm
Provision for impairment on other receivables	(24)	-	nm
Interest expense	(1,160)	(415)	179
	(1,925)	(1,366)	41

Presented in the income statement as:			
Financial income	191	307	(38)
Financial expense	(2,116)	(1,673)	27
Finance income and (expense) net	(1,925)	(1,366)	41

2) Other credits / (charges) are:

	Group		
	Year ended 31-Dec-05	Year ended 31-Dec-04	Change
	(S$'000)	(S$'000)	%
Amortisation of goodwill	-	(335)	nm
Pre-operation expenses written off	-	(36)	(100)
Gain/(Loss) on disposal of plant and equipment	4	(29)	(114)

3) Included in profit after income tax are:

	Group		
	Year ended 31-Dec-05	Year ended 31-Dec-04	Change
	(S$'000)	(S$'000)	%
Depreciation	1,000	1,026	(3)
Directors' remuneration	610	610	(0)

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-05	31-Dec-04	31-Dec-05	31-Dec-04
Property, plant and equipment	25,586	21,547	-	-
Investments in subsidiaries	-	-	7,376	6,317
Goodwill on consolidation	1,266	735	-	-
Long Term Trade Receivable	-	1,035	-	-
Total Non Current Assets	26,852	23,317	7,376	6,317
Current Assets				
Inventories	1,966	2,322	-	-
Contract work in progress	17,317	1,669	-	-
Trade receivables	21,266	23,970	-	706
Other receivables and prepayments	6,684	3,052	38,465	38,485
Cash and cash equivalents	4,765	11,196	722	312
Total current assets	51,998	42,209	39,187	39,503
Current Liabilities				
Trade payables & accrued liabilities	11,973	4,747	309	242
Contract work in progress	4,134	5,504	-	-
Other payables	4,272	4,379	3,610	3,138
Provision for taxation	309	478	-	-
Short term borrowing	9,352	7,429	7,502	7,376
Current portion of long term borrowings	1,667	2,144	1,667	1,639
Current portion of finance leases	-	21	-	-
Total current liabilities	31,707	24,702	13,088	12,395
Net current assets	20,291	17,507	26,099	27,108
Deferred Tax	130	115	-	-
Long term borrowings	6,047	6,471	4,584	6,146
Minority interests	2,774	3,207	-	-
	38,192	31,031	28,891	27,279
Shareholders' Equity	38,192	31,031	28,891	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 31/12/2005		As at 31/12/2004	
Secured	Unsecured	Secured	Unsecured
11,019,000	-	9,594,000	-

Amount repayable after one year

As at 31/12/2005		As at 31/12/2004	
Secured	Unsecured	Secured	Unsecured
6,047,000	-	6,471,000	-

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 corresponding period of the immediately preceding financial year

	Year Ended	
CASH FLOW STATEMENT	31-Dec-05	31-Dec-04
	S$'000	S$'000
Cash Flows from Operating Activities		
Net profit for the year	5,720	2,061
Adjustments for :-		
Income tax expense	562	908
Depreciation expense	1,000	1,026
Gain on disposal of fixed assets	(4)	29
Amortisation of goodwill on consolidation	-	335
Interest income	(49)	(36)
Interest expense	1,160	415
Operating profit before changes in working capital	8,389	4,738
Changes in working capital:-		
Decrease/(Increase) in Inventories	356	(649)
Decrease/(Increase) in Contract Work In Progress	(17,018)	5,153
Decrease/(Increase) in trade receivables	3,739	(7,345)
Increase in other receivables and prepayments	(3,632)	(122)
Increase/(Decrease) in trade payables and accruals	7,226	(1,947)
(Decrease)/Increase in other payables	(107)	3,784
Cash restricted in use over 3 months	1,577	-
Cash generated from operations	530	3,612
Interest received	49	36
Interest paid	(1,160)	(415)
Income taxes paid	(716)	(546)
Net Cash (used in) from Operating Activities	(1,297)	2,687
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(4,353)	(10,760)
Increase in fixed deposit with bank	-	(1,454)
Disposal of property, plant and equipment	10	1,072
Acquisition of subsidiaries	(1,061)	-
Net Cash used in Investing Activities	(5,404)	(11,142)
Cash Flows from Financing Activities		
Proceeds from issuance of shares	1,061	-
Increase in long Term loan borrowings	-	7,473
Short term borrowings	1,441	5,254
Repayment of Term loan	(901)	-
Repayment of Finance lease	(21)	(26)
Net Cash generated from Financing Activities	1,580	12,701
Net effect of exchange rate changes in consolidating foreign subsidiaries	(215)	16
Net (Decrease)/Increase in cash and cash equivalent	(5,336)	4,262
Cash and cash equivalents at beginning of the year	9,619	5,357
Cash and cash equivalent at end of the year	4,283	9,619

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 2005

	Share Capital (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	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	0	450
Balance at 31 December 2005	27,062	11,522	(392)	38,192	2,774	40,966

At 31 December 2004

	Share Capital (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 2004	26,001	4,059	(544)	29,516	2,959	32,475
Net profit for the year	-	1,813	-	1,813	248	2,061
Currency translation difference	-	-	(298)	(298)	-	(298)
Balance at 31 December 2004	26,001	5,872	(842)	31,031	3,207	34,238

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

At 31 December 2004

	Share Capital (S$'000)	Retained Earnings (S$'000)	Total (S$'000)
Balance at 1 January 2004	26,001	4	26,005
Net profit for the year	-	1,274	1,274
Balance at 31 December 2004	26,001	1,278	27,279

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

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 2004 have been applied in the preparation for the financial statements for the financial year ended 31 December 2005 except that the Group had adopted new/revised Financial Reporting Standards (FRS) which came into effect on 1 January 2005.

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 31/12/2005	Year ended 31/12/2004
Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year:-	Cents	Cents
a) Based on the weighted average number of ordinary shares on issue (cents)	3.06	1.00
b) On a fully diluted basis (cents)	3.06	1.00
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 31/12/2005	As at 31/12/2004	As at 31/12/2005	As at 31/12/2004
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	Cents	Cents	Cents	Cents
	20.70	17.13	15.66	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 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 year ended 31 December 2005 despite challenging market conditions.

Revenue

Group revenue rose 9.2% to $55.3 million in FY2005 as compared to FY2004. The growth was mainly due to the 21.6% increase in revenue of Engineered Environmental Systems ('EE Systems") to $43.8 million from the Industrial sector. Water Management Services ("WM Services") generated $9.1 million in revenue, a decline of 29.1% from $12.9 million in FY2004 due to completion of a major municipal waste water management contract. Trading (Chemical and others) increased by $0.6 million or 36.4% as compared to FY2004. Group revenue remained well diversified, with EE Systems and WM Services accounting for 79.3% and 16.6% of Group revenue respectively in FY2005.

The significant increase in revenue for EE Systems was largely contributed by Taiwan and Malaysia markets. Taiwan has recorded the highest revenue of $21.9 million followed by Malaysia with $18.2 million. Together, they accounted for 72.6% of Group revenue in FY2005.

Profitability

Gross profit rose 16.2% to $17.2 million, while gross profit margin increased to 31.1% from 29.3% in FY2004.

The Group financial expenses increased by $0.4 million due to bank interest has increased during the year due to the full year interest charged on US$9.5 million credit facilities (obtained by the Group in March 2004) in FY2005 as well as increase in SIBOR rate over the period from FY2004 to FY2005.

The Group incurred $3.1 million in selling and distribution expenses for FY2005 to support the increased business activities. The cost savings of approximately $0.5 million compared to FY2004 were primarily due to lesser travelling by our sales and management team to Taiwan and China, as our staff there become more independent and are able to pursue potential new customers on their own.

The Group's administrative expenses decreased by $0.5 million to $5.9 million in FY2005 mainly due to lower staffing cost.

The Group's pre-tax earnings doubled to $6.7 million in FY2005, from $3.0 million in FY2004. As a result, the net profit attributable to shareholders increased by 197% to $6.1 million as compared to $2.1 million in FY2004.

Balance Sheet
Property, plant and equipment increased by $4.0 million as at 31 December 2005, an increase of 18.7% compared to 31 December 2004. This increase was mainly due to the purchase of plant and machinery by a China subsidiary.

Inventories were maintained at $2.0 million as at 31 December 2005 mainly to support the higher EE Systems sales.
Contract work-in-progress of $17.3 million was as a result of a significant increase in projects in Malaysia and Taiwan. Revenue for these projects will be recognised by early 2006.
Trade receivables decreased by $2.7 million or 11.2% compared to those as at 31 December 2004. This was mainly collection received from projects completed in China and Taiwan.
Other receivables and prepayments increased by $3.6 million as compared to those at 31 December 2004 mainly due to advance fee payment to secure loan facilities and advance payment to suppliers.
Cash and cash equivalents were lower by $6.4 million in FY2005 mainly due to financing for the on-going municipal projects in China and Taiwan.

Trade payables and accrued liabilities increased by $7.2 million compared to 31 December 2004. This was mainly due to payables to suppliers for equipment purchased for our municipal projects in Taiwan.
Other Payables decreased marginally by $0.1 million compared to 31 December 2004. This was mainly due to payments made to suppliers.
Short term borrowings increased from $9.6 million as at 31 December 2004 to $11.0 million as at 31 December 2005. This was mainly due to the additional clean loan facilities obtained by the Malaysian and Singapore entities.
Long term borrowings decreased to $6.0 million as at 31 December 2005 as compared to $6.5 million in 31 December 2004. The reduction was due to repayment made during the year.

Cash flow statement

There was a net cash outflow of $6.7 million to fund operating and investing activities as a result of the substantial increase in projects in FY2005. Financing activities generated a positive cashflow of $1.6 million in FY2005 mainly due to additional short term borrowing from Malaysia as well as Singapore entities.

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 FY2004

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 expects the business environment in its major markets to remain challenging for the current financial year, FY2006.
In spite of these difficulties, the Group has secured S$115million new orders in FY2005 which is more than double its F2004 sales.
Excluding the S$55million sales in FY2005, it still has more than S$60 million turnkey orders to be recognized in FY2005. One was the NT$1.66 billion (S$83.8m) joint turnkey project with Leader Construction Co. in Hsin Chu City, while the other was the NT$580m (S$29.3m) turnkey project that the Group has secured entirely on its own in Chu Bei City.
Barring unforseen 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 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

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 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	5,398	793	91	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

Group	EE Systems 2004 $'000	WM Services 2004 $'000	Trading 2004 $'000	Consolidated 2004 $'000
REVENUE				
External sales	36,041	12,911	1,666	50,618
RESULTS				
Segment results	1,081	1,499	389	2,969
Unallocated corporate expenses	-	-	-	-
Profit before income tax	1,081	1,499	389	2,969
Income tax				(908)
Profit after income tax				2,061
Capital additions	7,661	2,745	354	10,760
Depreciation and amortisation	969	347	45	1,361
BALANCE SHEET				
ASSETS				
Segment assets	27,568	2,048	928	30,544
Unallocated corporate assets				34,982
Consolidated total assets				65,526
LIABILITIES				
Segment liabilities	13,522	319	500	14,341
Unallocated corporate liabilities				16,947
Consolidated total liabilities				31,288

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:-

	Year ended 31-Dec-05 (S$'000)	Year ended 31-Dec-04 (S$'000)
By Geographical Market		
Singapore	5,723	4,585
Malaysia	18,169	15,653
China	8,625	7,483
Taiwan	21,951	20,157
Others	783	2,740
	55,251	50,618

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 31/12/2005 (S$'000)	Year ended 31/12/2004 (S$'000)	% Inc/(Dec) (S$'000)
a) Sales reported for first half year	22,314	18,395	21
b) Operating profit/loss after tax before deducting minority interests reported for first half year	2,154	1,834	17
c) Sales reported for second half year	32,937	32,223	2
d) Operating profit/loss after tax before deducting minority interests reported for second half year	3,566	227	1,471

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