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**CLARIFICATION ON FULL YEAR 31<sup>ST</sup> DECEMBER 2007 RESULTS ANNOUNCEMENT**

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In response to the email from the Singapore Stock Exchange Securities Trading Limited dated 12 March 2008, the Board of Directors of Darco Water Technologies Ltd wishes to provide the following additional information in relation to the full year financial statement announcement for the year ended 31 December 2007 ("FY2007 Results") as follows:

SGX Query:

We note that Paragraph 9 of Appendix 7.2 requires the Company to disclose variance between actual FY2007 results and the previous prospects statements disclosed to shareholders. In response to this disclosure, the Company stated that its actual results are in line with the statement made in the announcement of the full year results for FY2006. However, in the Company's HY2007 results, the Company had provided an updated prospects statement in paragraph 10 of its HY2007 results which stated that "Outlook for municipal water treatment in China is positive with the construction of Qian Yuan BOT project to gather pace. For Taiwan, an additional order of S\$21 million in civil construction is likely to improve our second half earnings. Barring any unforeseen circumstances, our performance for FY2007 is likely to improve significantly." The Company made a net profit of S\$2.066 million in HY2007. We note in paragraph 15 of the Company's FY2007 results that the actual net after tax loss incurred in the 2nd half of 2007 amounting to S\$1.535 million was not in line with the latest prospects statement made in its HY2007 results. Please explain:

- (i) why the Company failed to disclose that it was unable to meet its prospects statement made in its HY2007 results in paragraph 9 of its FY2007 Results;
- (ii) why the Directors felt it was not necessary or were unable to provide investors with a profit warning explaining the change in the circumstances which resulted in the performance of the Group to deviate from the projection given in the HY2007 Results; and
- (iii) provide reasons and disclose factors which resulted in the significant loss for 2HY2007 in spite of the positive outlook prevailing at the time the HY2007 prospects statement was made. To quantify.

Our Reply:

- (i) The drop in the 2<sup>nd</sup> half FY2007 results was due to one-time non-recurring provision of approximately S\$4.6 million relating to sub-contracting works for Taiwan-based company, Hsin II. The Company did purchase an export credit insurance cover for this project with ECICS. A claim was made against ECICS but ECICS has not honoured its obligations under the policy. The Company has commenced litigation against ECICS. Barring the bad debts, net profits would otherwise have registered a higher growth from last year.

Financial Highlights	FY2007 (S\$'000)	FY2006 (S\$'000)	% Change
Revenue	87,559	68,905	27
Gross Profit	20,731	17,043	22
Net Profit (incl bad debts)	118	2,377	(95)
Net Profit (excl bad debts)	4,724	2,377	99

**DARCO WATER TECHNOLOGIES LIMITED**

(Company Registration No. 200106732C)

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- (ii) The Company did not announce any profit warning earlier because the decision to make the said provision was taken only on 27 February 2008 after thorough discussion at the audit committee meeting and after consultation with the Company's auditors.
- (iii) As mentioned above, the drop in 2<sup>nd</sup> half FY2007 results was due to one-time non-recurring relating to provision of approximately S\$4.6 million relating to sub-contracting works arising from Taiwan-based company, Hsin II.

BY ORDER OF THE BOARD

Thye Kim Meng  
Managing Director & Chief Executive Officer

14 March 2008