Eco Water Limited

Annual Report 2006

Contents

Corporate Profile 1

Corporate Structure 2

Operations & Financial Review 4

Financial Highlights 5

Chairman's Statement 6 - 7

Board of Directors 8 - 9

Executive Officers 10

Corporate Information 11

Corporate Governance Report 13 - 21

Report of the Directors 22-25

Statement by Directors 26

Report of the Auditors 27

Balance Sheet 29

Condsolidated Statement of Changes in Equity 31 - 32

Condolidated Cash Flow Statement 33 - 34

Notes to the Financial Statements 35 - 72

Analysis of Shareholdings 73 - 74

Notice of Annual General Meeting 75 - 76

Proxy Form

Corporate Profile

Since 1995, our Company has been providing specialised systems for sewage and industrial wastewater treatment projects.

Subsequent to the listing on SGX-SESDAQ in July 2003, the Group has diversified into other related areas of environment and infrastructure business such as water treatment systems, bio-medical waste management, industrial water and wastewater treatment systems and zero discharge solutions.

For each of the product segments in environmental projects, Eco Water provides an Integrated Project Solution comprising:

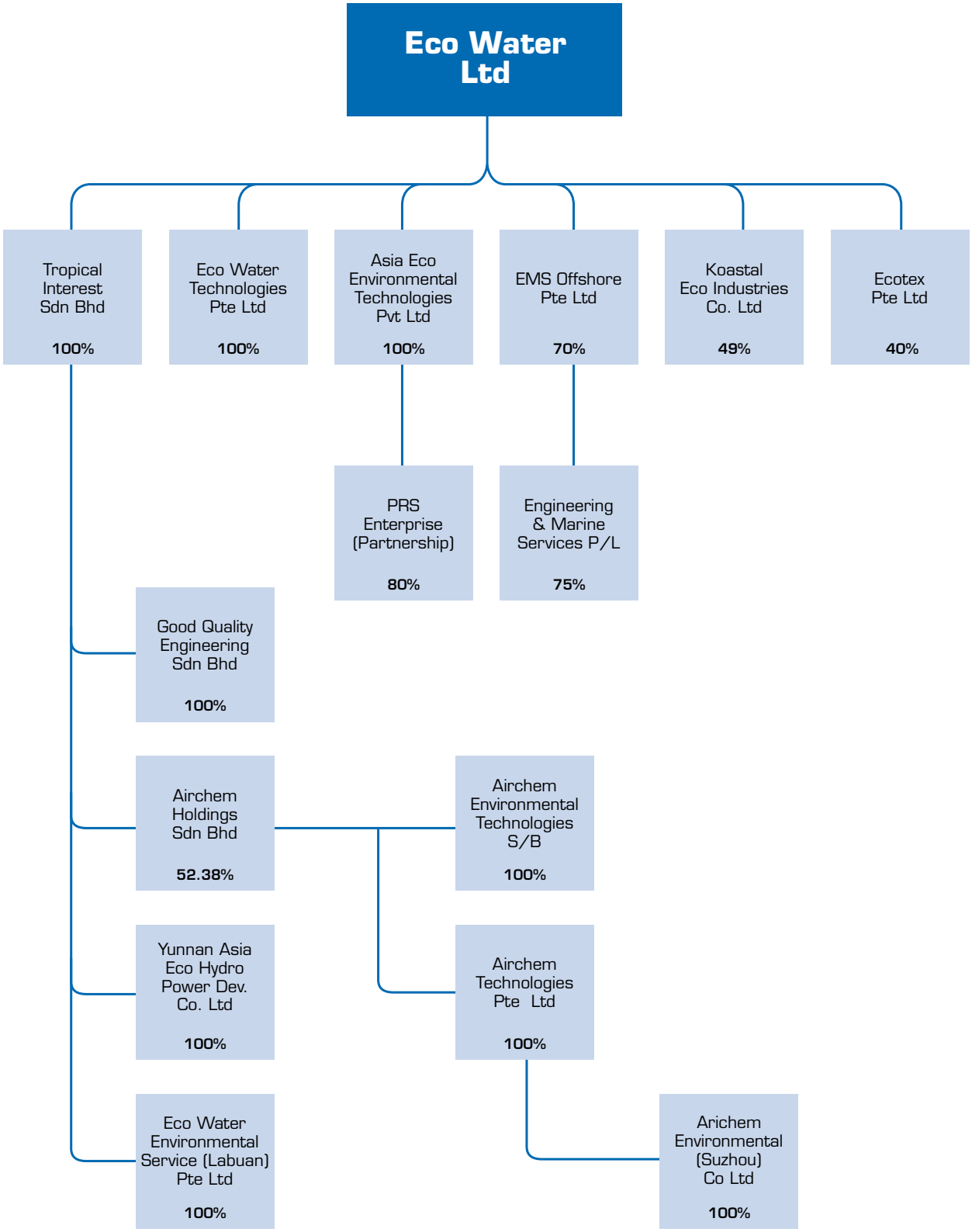
1. Project conceptualisation, process design and detailed engineering,
2. Engineering, procurement and construction,
3. Installation and commissioning,
4. Operation and maintenance services,
5. Turnkey solutions and BOT, BOO business models involving investments and financing.

Since we commenced operations, the Group has successfully completed more than 200 environmental projects in the municipal and industrial sectors, ranging from latex and rubber based industries, food and beverage, textiles, pulp and paper, breweries and distilleries, electroplating and electronics, dairies, hospitals and hotel and resorts.

In late 2006, the Group diversified into the business of fabricating engineering equipment and provision of services for the oil & gas and offshore marine industries, through the acquisition of a controlling interest in EMS Offshore Pte Ltd.

Today, the Group through its subsidiaries and associate companies operates in Malaysia, Singapore, Vietnam, India, Thailand, Namibia and the People's Republic of China.

Corporate Structure



Reaching Out...

To harness new opportunities

Operations and Financial Review

Revenue

During the year under review, our Group recorded revenue of S$16.2 million, an improvement of 37.3% over revenue of S$11.8 million for the financial year ended 31 December 2005 (FY2005).

Our Group derives revenue from the following business segments:-

i] Integrated Industrial Wastewater Treatment Systems ("IWTS")

Our IWTS segment comprises the design, assembly, installation and commissioning of Industrial Wastewater Treatment Systems and sales of chemicals for industrial application.

For the 12 months ended 31 December 2006 (FY2006), revenue from IWTS increased approximately by four folds to S$6.7 million, compared to S$1.7 million in FY2005. The increase was mainly contributed by the Airchem group which our Group acquired in June 2005 and the increase in sales of chemicals for industrial application.

ii] Sewage Treatment Systems ("STS")

The STS segment comprises the design, assembly, installation and commissioning of Sewage Treatment Systems for residential and commercial sectors.

Due to the slow down of the property market in the Southern Region of Peninsular Malaysia and the stiff competition in the STS market, revenue from this segment decreased by 16% from S$10.1 million in FY2005 to S$8.5 million in FY2006.

iii] Fabricating of Engineering Equipment and Services ("FEES")

The main business activities of FEES include the supply of products and the design, engineering, installation, repair and fabrication services for the oil & gas and offshore marine industries.

In line with our Group's diversification strategy to spread our market risk and broaden the spectrum of our existing businesses, our Group acquired a controlling interest in the EMS group and plan to develop this business further as our future growth engine. As the acquisition of the EMS Group was only completed in December 2006, the benefits of the acquisition were not fully reflected in FY2006's results.

Profitability

Our Group recorded gross profit of S$2.6 million in FY2006, representing an overall gross profit margin of 16.2%, as compared to a gross loss position of S$1.197 million in FY2005. The gross loss in FY2005 was due to the S$2.1 million contract costs written off following the termination of a contract in Kelantan, Malaysia.

The improvement in gross profit and gross profit margin was mainly attributable to the contributions from IWTS and FEES segments. The profit margin from the STS segment remained low due the competitive market condition.

On an operating level, our Group's administrative expenses increased by approximately S$3.0 million to S$6.4 million in FY2006 as compared to S$3.4 million in FY2005. The increase was mainly attributable to:

1) S$2.2 million write off on the investment for the hydro-power station development project in Yunnan ("Yunnan Project");

2) Consolidation of full year administrative expenses of the Airchem group in FY2006. The Airchem group was acquired by our Group in June 2005; and

3) Consolidation of administrative expenses of approximately S$331,000 from EMS Offshore Pte Ltd, which our Group acquired in December 2006.

Finance costs reduced by 5.1% due to the repayment of a term loan.

Our Group recorded an operating loss after tax and minority interest of S$4.5 million in FY2006 as compared to S$3.9 million in FY2005.

Balance Sheet and Cash Flow

Our Group's non-current assets amounted to S$7.7 million as at 31 December 2006, as compared to S$4.1 million as at 31 December 2005. The increase was primarily attributable to the higher property, plant and equipment, which had increased with the acquisition of EMS Offshore Ltd in December 2006. The decrease in investment was due to the one-off withdrawal of investment in unit trusts.

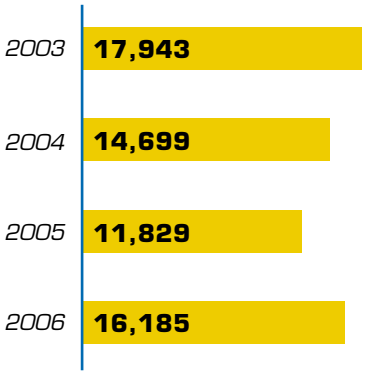
The acquisition of EMS Offshore Pte Ltd resulted in the higher goodwill on consolidation. Intangible assets of S$366,000 were related to development expenditure in respect of the hydro-power station development project in Yunnan which was subsequently written off in FY2006.

The increase in trade receivables was mainly attributable to the consolidation of approximately S$2.9 million from EMS Offshore Pte Ltd. The decrease in other receivable was attributable to the write off of prepayments of approximately S$1.7 million in relation to the Yunnan Project. The increase in trade payables and other payables was due to the consolidation of EMS Offshore Pte Ltd in FY2006.

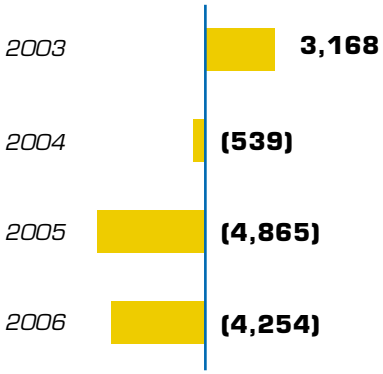
As at 31 December 2006, our Group had cash and cash equivalent amounting to S$184,000 as compared to S$2.8 million as at 31 December 2005. The net decrease in cash and cash equivalents were mainly due to the net cash used of S$2.3 million in the acquisition of EMS Offshore Pte Ltd and the repayment of hire purchase creditors and long term borrowing.

Financial Highlights

Revenue
(S$'000)

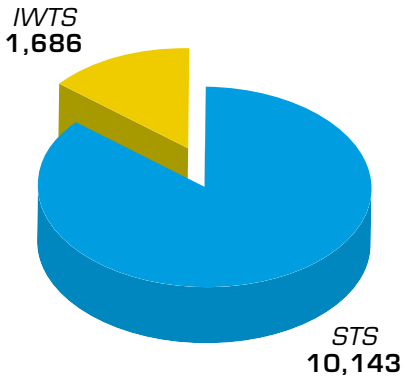


Profit/(Loss) Before Taxation
(S$'000)

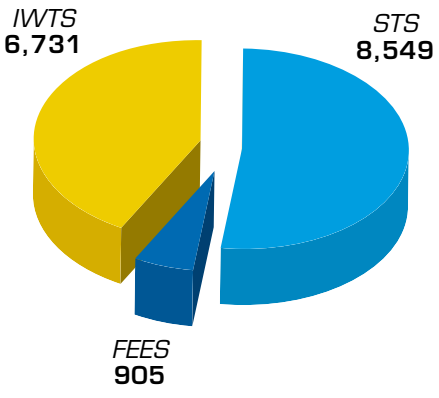


Revenue by Segments
(S$'000)

2005



2006



On behalf of the Board of Directors, it is my pleasure to present the Annual Report and Financial Statements for the financial year ended 31 December 2006.

Chairman's Statement

Dear Shareholders,

The past year has been very eventful for our Group. Historically, we had focused on the core businesses of industrial wastewater treatment and sewage treatment. However, the latter continued to face intense competition, which adversely affected our financial performance. In a bid to reduce the impact of this business segment, Management had actively pursued a diversification strategy. Management's aim is to diversify into other exciting growth industries as well as focus on the higher value-added industrial wastewater business so as to ensure long term growth and consistent shareholder value creation.

While our Group turned in higher revenue of S$16.2 million for the year, our expenses also showed a sharp increase. One main reason for this was the one-time write-off of the investment in the hydro-power station development project in Yunnan. Our sewage treatment projects in Malaysia, where the market remained highly competitive, also recorded lower profit margin which affected our overall performance.

In December 2006, our Group acquired a controlling interest in EMS Offshore Pte Ltd (and its subsidiary, Engineering & Marine Services (Pte) Ltd), as part of our diversification strategy to branch into the offshore marine services industry. The EMS Group supplies products and design, engineering, installation, repair and fabrication services to companies in the offshore marine, oil and gas industry. We aim to capitalise on the EMS Group's expertise and track record to exploit the growth opportunities within this industry.

However, as the acquisition of the EMS Group was only completed in December 2006, the benefits of the acquisition were not fully reflected in the results for 2006.

Prospects and Outlook

In a review of our Group's operations, we have identified two key engines for our future growth; the high-growth offshore marine services industry and the higher value-added industrial wastewater treatment business.

The EMS Group is expected to become a significant revenue contributor in the coming year. Compared to the highly competitive sewage treatment business, the EMS Group is in a niche market where competition is less intense. To further capitalise on the high-growth offshore marine services industry and to spread our Group's market risk by broadening the spectrum of our businesses, we entered into a Sale & Purchase Agreement ("S&P") to acquire a direct 17.5% interest in the capital of Engineering & Marine Services (Pte) Ltd on 7 March 2007. Upon completion of the S&P, our Group will own an effective 70% stake in the capital of Engineering & Marine Services (Pte) Ltd.

Our other subsidiaries, the Airchem group will continue to focus on the higher value-added water and environment business.

Internally, a restructuring exercise, at both the Group and Company level, is in full swing. With a new management team at the helm, we are confident of our Group's future direction and prospects.

An Executive Management Committee has been established to implement tighter corporate governance for our Group. Operations will be streamlined to better utilise existing resources to optimize returns. We are also reassessing and tightening up our investment strategies to avoid the future recurrence of losses resulting from underperforming investments.

Conclusion

2006 is a year of consolidation. We have streamlined our Group's corporate management, operations and investments. We will continue to look into other areas to improve on and reduce exposure to investment and execution risks. We will also explore suitable merger and acquisition opportunities which are synergistic with our Group's operations.

All our efforts are part of a continuous and ongoing process and Management remains committed to turning our Group around and value creation to shareholders.

Lastly, we would like to welcome our Chief Financial Officer, Mr Teo Yak Huat and our new Independent Directors, Ms Lim May Lan and Mr Terrance Tan Kong Hwa. I am sure our Group will benefit from their wealth of experience in corporate governance and corporate finance. I would also like to take the opportunity to thank Mr Heng Peng Siang, Mr Lai Chee Kong and Prof Chen Guanghao for their contributions to our Group. To our staff, customers, shareholders and business associates, thank you for your unstinting support during these difficult times. Together, we can work towards a better year ahead.

Mr. Ting Teck Jin
Executive Chairman

Board of Directors

MR. TING TECK JIN is our Executive Chairman. Mr. Ting is responsible for leading the Board of Directors and promoting high standards of corporate governance within our Group. He is currently the Managing Director of Koastal Industries Pte Ltd, the General Manager of Koastal Eco Industries Co. Ltd and the Chairman of Engineering & Marine Services Pte Ltd. Prior to these appointments, he held various positions with Keppel Corporation Ltd and Keppel Shipyard. With close to 20 years of experience in the marine engineering industry, he has handled a wide range of functions including ship repair, shipyard operations, conversion of tankers, purchasing, engineering, trading activities as well as environment and pollution control. An engineer by training, Mr. Ting has a Bachelor of Engineering (Marine Technology) from the University of Newcastle upon Tyne in the United Kingdom.

DR. TAN JOO CHAI is our Managing Director. In his capacity as Managing Director, Dr. Tan is responsible for leading the Management in business and management strategy, organisational development and long term growth of the Group. Dr. Tan has been the Managing Director of the Group since 1997 and has been instrumental in developing the Group's business and formulating expansion plans. Dr Tan is a registered consultant with the Department of Environment, Ministry of Science, Technology and Environment in Malaysia. He is also qualified to carry out environmental impact assessment study. Dr. Tan has a Bachelor of Applied Science (Civil Engineering), a Master of Applied Science (Civil Engineering) from the University of Windsor, Canada and also a PhD in Civil Engineering (Environmental) from the National University of Singapore.

MR. RAVISHANKAR CHANDRASEKHARA VAIDYA is our Executive Director. He is in charge of business and technology development of our Group. Prior to joining our Group, he was the Business Development Manager of Ondeo Industrial Solutions Pte Ltd. Prior to that he was the Regional Marketing Manager of Cleanway Environmental Services Pte Ltd and a Director of Cleanway Systems & Technologies Pte Ltd. Mr. Ravi has more than 18 years of experience in the environmental engineering industry. He has a Bachelor's degree in Civil Engineering and a Master's degree in Environmental Engineering from the University of Bombay.

MR. TAN SOO KIAT is our Non-executive Director. Mr Tan is currently a Director of Intergate Pte Ltd, a company engaged in the provision of corporate advisory services. With extensive experience in the banking and finance industry, he has previously held senior financial appointments in several public-listed companies. Currently, he is also a Board member of a number of public companies listed on the Singapore Stock Exchange. A Chartered Accountant, he graduated from University of Otago, New Zealand.

MS. LIM MAY LAN Ms. Lim May Lan was appointed as an Independent Director on 8 January 2007. She is currently the Executive Director, Group Chief Financial Officer and Head of Corporate Affairs of Ellipsiz Ltd, a semiconductor manufacturing solutions company listed in the Singapore Exchange. Ms. Lim has extensive financial and management experience in the international public accounting and commercial sectors. Ms. Lim holds an MBA in Strategic Marketing from the University of Hull (UK), a Bachelor degree in Accountancy from the National University of Singapore, a Postgraduate Diploma in Marketing from the Chartered Institute of Marketing (UK) and a Diploma in secretarial matters from the Institute of Chartered Secretarial and Administrator (UK).

MR. TERRANCE TAN KONG HWA is our Independent Director. Mr Tan is currently the Chief Investment Officer of Rotol Singapore Ltd, a company listed on the Singapore Exchange. He spearheads the company's investment and M&A activities in the region. Prior to that, he was the Chief Financial Officer of Pacific Healthcare Holdings Ltd. Mr Tan has extensive experience in the finance industry, in particular in private equity and venture capital investments while he was with Standard Chartered Private Equity Ltd and DBS Capital Investments Ltd.

Executive Officers

Mr. Teo Chun Heong is the Executive Director of Tropical Interest Sdn Bhd (TISB). He is responsible for the whole business operations of TISB. Beside general management, he is actively involved in project matters and ensures smooth coordination between all the departments. Mr. Teo holds a Bachelor's degree in Construction Economics from Royal Melbourne Institute & Technology University (Australia).

Mr. Teo Yak Huat is our Chief Financial Officer. He is responsible for the overall financial management, accounting and tax planning for the Group. Mr. Teo started his career in 1991 as a trainee accountant and auditor in Brian O'Reilly & Associates in Ireland. He brings with him extensive experience in financial management, having held positions of accountant, finance manager and financial controller with both private and publicly listed companies. Mr Teo graduated from The Association of Chartered Certified Accountants from Griffith College in Ireland and remains a fellow member of the Association. He is also a provisional member of the Institute of Certified Public Accountants of Singapore.

Mr. Se Kuo Shen is our Group Financial Controller, responsible for the supervision of the Group accounting and reporting function. Mr. Se has over 10 years of experience in the audit, tax and consultancy services with several Chartered Accounts in Malaysia. Mr. Se graduated from the Malaysian Institute of Certified Public Accountants and remains a member of the Institute and a member of the Malaysian Institute of Accountants.

Mr. Teng Ah Ching is the Managing Director of Good Quality Engineering Sdn Bhd ("Good Quality") which is a wholly owned subsidiary of Tropical Interest Sdn Bhd. Mr. Teng is principally responsible for project planning, managing and implementing all construction activities undertaken by Good Quality. He is also responsible for project budgeting and cost control. Mr. Teng leads a team of engineers, supervisors and site staff. Mr. Teng also liaises with clients, consultants and authorities, conducts meetings as well as monitors the performance of sub-contractors.

Mr. Cheong Wah Hong is the Sales & Marketing Manager of TISB. He is responsible for business development activities on industrial wastewater and sewage treatment projects. He is also involved in Technical Sales department, budgeting, scheduling and executing day-to-day marketing activities. Mr. Cheong holds a Bachelor's degree in Science from University Putra Malaysia.

Corporate Information

Board of Directors

Mr Ting Teck Jin	*(Executive Chairman)*
Dr Tan Joo Chai	*(Managing Director)*
Mr Ravishankar Chandrasekhara Vaidya	*(Executive Director)*
Mr Tan Soo Kiat	*(Non-Executive Director)*
Ms Lim May Lan	*(Independent Director)*
Mr Terrance Tan Kong Hwa	*(Independent Director)*

Company Secretary

Ms Gwendolyn Gn, LLB (Hons)

Registered Office

1 Robinson Road
#17-00 AIA Tower
Singapore 048542

Share Registrar and Share Transfer Office

M & C Services Private Limited
138, Robinson Road
#17-00 The Corporate Office
Singapore 068906

Auditors

Nexia Tan & Sitoh
Certified Public Accountants
5, Shenton Way
UIC Building
#23-03
Singapore 068808
Partner in charge: Ms Kristin Y S Kim
Appointed since 2005

Solicitors

Shooklin & Bok
1 Robinson Road
#18-00 AIA Tower
Singapore 048542

Principal Bankers

DBS Bank Ltd
Labuan Branch
Level 12 (E) Main Office Tower
Financial Park Labuan
Jalan Merdeka
87000 F.T.Labuan, Malaysia
Licensed offshore Bank (9400031C)

Malayan Banking Berhad
Level 1, Johor Bahru City Square
108, Jalan Wong Ah Fook
Johor, Malaysia

United Overseas Bank (Malaysia) Berhad
No. 2, Jalan Wong Ah Fook
80000 Johor Bahru
Johor, Malaysia

Reaching Out…

To embrace strategic renewal

Corporate Governance Report

Our Chairman is Mr Ting Teck Jin and his responsibilities include:-

1. leading the Board to ensure effectiveness on all aspects of its role and set its agenda;
2. ensuring that the Directors receive accurate, timely and clear information;
3. ensuring effective communication with shareholders;
4. encouraging constructive relations between the Board and Management;
5. facilitating the effective contribution of Non-Executive Directors;
6. encouraging constructive relations between Executive Directors and Non-Executive Directors; and
7. promoting high standards of corporate governance.

As there is a clear division of roles of the Chairman and Managing Director, the Board is of the view that it is not necessary to appoint a Lead Independent Director at the present moment.

Principle 4: Board Membership

The NC comprises Mr Terrance Tan Kong Hwa (Chairman), Ms Lim May Lan and Mr Tan Soo Kiat.

We believe that Board renewal is an ongoing process which ensures good governance and maintains relevance to the changing needs of the Company and its business. In accordance with the Company's Articles of Association, at least one-third of the Board (excluding the Managing Director) is subject to retirement by rotation and re-election at the Annual General Meeting ("AGM").

The principal responsibilities of the NC are as follows:-

a. making recommendation to the Board on all Board appointments and re-appointments;
b. reviewing and recommending to the Board annually, the Board's structure, size and composition;
c. determining independence of the Director annually; and
d. evaluating the performance and effectiveness of the Board as a whole.

The NC Chairman, Mr Terrance Tan Kong Hwa, is not, and is not directly associated with, a substantial shareholder (with interest of 5% or more in the voting shares of the Company).

In the selection and nomination for new Directors, the NC identifies the key attributes that an incoming Director should have, based on attributes of the existing Board and the requirements of the Group. After endorsement by the Board of the key attributes, the NC taps on the resources of the Directors' personal contacts for recommendations of potential candidates. Executive recruitment agencies may also be appointed to assist in the search process where necessary.

New Directors are appointed by way of a board resolution, after the NC has approved their nominations. Such new Directors submit themselves for re-election at the next AGM of the Company.

The NC recommended to the Board that Messrs Tan Soo Kiat, Lim May Lan, Terrance Tan Kong Hwa and Ting Teck Jin be nominated for re-election at the forthcoming AGM. In making the recommendation, the NC had considered the Directors' contribution to the Group.

The NC is satisfied that sufficient time and attention are being given by the Directors to the affairs of the Group, notwithstanding that some of the Directors have multiple board representations, and there is presently no need to implement internal guidelines to address their competing time commitments. This matter is reviewed on an annual basis by the NC.

Principle 5: Board Performance

The NC will use its best efforts to ensure that Directors appointed to our Board possess the relevant necessary background, experience and knowledge and that each Director brings to the Board an independent and objective perspective to enable balanced and well-considered decisions to be made.

For the year under review, the NC assessed the effectiveness of the Board as a whole and also the contribution of each individual Director thereto. The Board's performance was measured by its ability to support the management especially in times of crisis and to steer the Company towards profitable directions and the achievement of strategic and long-term objectives set by the Board.

The NC adopted a formal policy to evaluate the Board's performance as a whole. The performance criteria are not changed from year to year unless absolutely necessary and justifiable and include the following:-

I. Timely guidance to management
II. Attendance at Board/Committee meetings
III. Participation at Board/Committee meetings
IV. Commitment to Board activities
V. Independence of Directors
VI. Appropriate complement of skill, experience and expertise on the Board

The Chairman acts on the results of the performance evaluation and, where appropriate and in consultation with the NC, proposes new members be appointed to the Board or seeks resignation of Directors.

Principle 6: Access to Information

All Directors receive Board papers prior to any Board meeting to provide contextual information and enable the Directors to obtain further information, where necessary, in order to be briefed properly before any meeting.

To assist the Board in discharging its responsibilities, Management provides Board members with operational reports and management accounts on a quarterly basis. The Company is in the process of restructuring its reporting function, aiming to provide information on a more regular and timely basis.

The Board has separate and independent access to the senior management and the Company Secretary at all times. Should Directors, whether as a group or individually, need independent professional advice, the Company Secretary will, upon directions by the Board, appoint a professional advisor selected by the group or the individual to render the advice. The cost of such professional advice will be borne by the Company.

The Company Secretary attends all meetings of the Board and ensures that board procedures are followed and applicable rules and regulations are complied with. The Company Secretary also attends all meetings of the AC, NC and RC. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

B. REMUNERATION MATTERS

Principle 7: Procedures for Developing Remuneration Policies
Principle 8: Level and Mix of Remuneration

The RC is chaired by Mr Terrance Tan Kong Hwa. The other members are Ms Lim May Lan and Mr Tan Soo Kiat.

The function of the RC is to review the procedures for developing remuneration policies of the Executive Directors of the Company, to fix the remuneration packages of individual Directors and to provide a greater degree of objectivity and transparency in the setting of remuneration. No Director is involved in deciding his own remuneration. In setting remuneration, the RC considers the contributions of Directors and their responsibilities and avoids paying more than is necessary.

The principal responsibilities of the RC are:

a. to recommend to the Board a framework of remuneration for and to attract, retain and motivate the Executive Directors of the Group (where applicable) which covers all aspects of remuneration such as Directors' fees, salaries, allowance, bonuses, options and benefits-in-kind and to submit all such recommendations for endorsement by the entire Board;
b. to determine the specific remuneration packages and terms of employment for each Executive Director; and
c. to review the remuneration of senior management.

The service agreements of the Executive Directors do not have onerous terms and have a notice period of three months for the termination of service.

Corporate Governance Report

The Managing Directors' remuneration is structured to link rewards to corporate and individual performance. The RC is of the view that such measurements are appropriate and meaningful.

The RC has access to internal and external expert and/or professional advice on human resource and remuneration of all Directors, amongst other matters, whenever there is a need for such consultation.

As a long-term incentive scheme, the Group operates "The Eco Water Employee Share Option Scheme" (the "Scheme") for its directors and employees. The Scheme is administered by the RC and was approved by members of the Company at an Extraordinary General Meeting on 12 May 2003.

For further information on the Scheme, please refer to our Directors' Report and Notes to Financial Statements for the financial year ended 31 December 2006 in this annual report.

Principle 9: Disclosure of Remuneration

The Company adopts a formal procedure for the setting of remuneration packages of individual Directors, taking into account pay and employment conditions of comparable companies in the same or similar industries, as well as the Group's relative performance and the performance of individual Directors.

The Directors' Remuneration for financial year 2006 is set out below:

Name	Remuneration Band	Salary %	Bonus %	Director's fee %	Stock option granted during the year %	Total %
Executive Directors						
Mr Ting Teck Jin (Appointed on 6 December 2006)	Below $250,000	100	–	–	–	100
Dr Tan Joo Chai	Below $250,000	100	–	–	–	100
Mr Ravishankar Chandrasekhara Vaidya	Below $250,000	85	–	15	–	100
Mr Heng Peng Siang (Resigned on 30 June 2006)	Below $250,000	86	14	–	–	100
Non-Executive Directors						
Tan Soo Kiat	Below $250,000	–	–	100	–	100
Mr Lai Chee Kong (Resigned on 31 December 2006)	Below $250,000	–	–	100	–	100
Non-Executive Directors (Independent)						
Ms Lim May Lan (Appointed on 8 January 2007)	Below $250,000	–	–	–	–	–
Mr Terrance Tan Kong Hwa (Appointed on 8 January 2007)	Below $250,000	–	–	–	–	–
Prof Chen Guanghao (Resigned on 31 December 2006)	Below $250,000	–	–	100	–	100

Remuneration of Key Employees

Details of remuneration paid to the key employees (who are not Directors of the company) of the Group for the financial year 2006 are set out below:

Name	Remuneration Band	Salary %	Bonus %	Stock option granted during the year %	Total %
Ngo Soon Hoe (Resigned on 27 February 2007)	Below $250,000	100	–	–	100
Ms See May Yee (Resigned on 16 November 2006)	Below $250,000	91	9	–	100
Teng Ah Ching	Below $250,000	92	8	–	100
Se Kuo Shen (Appointed on 1 June 2006)	Below $250,000	100	–	–	100
Cheong Wah Hong (Appointed on 6 September 2006	Below $250,000	100	–	–	100
Chia Kong Boon (Resigned on 31 May 2006)	Below $250,000	89	11	–	100

The Company does not have any employee who is an immediate family member of our Executive Directors whose remuneration in FY2006 exceeds $150,000.

C. ACCOUNTABILITY AND AUDIT

Principle 10: Accountability

The Board believes that it should promote best practices and present a balanced and understandable assessment of the Group's performance, position and prospects, which extends to interim and price sensitive public reports, as a means to build an excellent business for our shareholders as they are accountable to shareholders for the Company and the Group's performance.

The Board is mindful of its obligations to provide timely and fair disclosure of material information in compliance with statutory reporting requirements. Price sensitive information is first publicly released, either before the Company meets with any group of investors or analysts or simultaneously with such meetings. Financial results and annual reports will be announced or issued within the mandatory period. The Board also provides reports to regulators when required.

Principle 11: Audit Committee

The AC comprises three Non-Executive Directors, of which two are independent. The AC is chaired by Ms Lim May Lan and the other members are Mr Terrance Tan Kong Hwa and Mr Tan Soo Kiat. The AC has explicit authority to investigate any matter within its terms of reference, full access to and co-operation by Management and reasonable resources, as well as full access to the Directors and Executives and discretion to invite any of them to attend its meeting.

The principal functions of the AC are as follow:

(a) review the audit plan and auditors' reports of our Company's external and internal auditors;
(b) ensure co-operation is given by our officers to the external and internal auditors;
(c) review half year and annual financial statements and the Auditors' Report on the Company's annual financial statements before they are presented to the Board;
(d) review the effectiveness of the Group's internal controls and its internal audit function;
(e) review the independence and objectivity of the external auditors on an annual basis;
(f) consider the appointment and re-appointment of external auditors;
(g) review interested person transactions.

The AC meetings are attended by the Managing Director, Executive Directors and Internal Auditor. The presence of the external auditors has been requested during these meetings. During this financial year, the AC has also met up with the external auditors, without any executives of the Group being present.

The AC, having reviewed the range and value of non-audit services performed by the external auditors, Messrs Nexia Tan & Sitoh, and being satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors, are pleased to confirm their re-nomination.

The AC also reviews the recently implemented whistle blowing arrangements, which allow staff and shareholders of the Company to confidentially report of questionable accounting, control or audit practices. The reports can be made on an anonymous basis, but the Company recommends that the informant(s) put their name(s) to the allegations. The Group has a policy of "no-retaliation" against good-faith informants.

Principle 12: Internal Controls

The Board acknowledges that it is responsible for the overall internal control framework and for ensuring that Management maintains a sound system of internal controls to safeguard the shareholders' investments and the Group's assets. The Board also recognises that no cost effective internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

During the financial year, the Company's external and internal auditors conducted annual review of the effectiveness of the Company's material internal controls, including financial, operational and compliance controls. Any material non-compliance and recommendation for improvement were reported to the Audit Committee. The Audit Committee, on behalf of the Board, also reviewed the effectiveness of the Group's system of internal controls in light of key business and financial risks affecting the operations. Based on the reports submitted by the external and internal auditors and the various controls put in place by the Management, the Audit Committee is satisfied that there are adequate internal controls to meet the needs of the Group in its current business environment.

Principle 13: Internal Audits

The Group outsourced its internal audit function to an external professional firm, who reports directly to the Chairman of AC and administratively to the Chairman or the Managing Director. The AC's responsibility in overseeing that the Company's internal controls and risk management systems are adequate will be complemented by the work of the Internal Auditors ("IA").

The AC meets with the IA at least once during the year without the presence of the management, reviews the IA's reports on a half yearly basis and also reviews and approves the annual IA plans and resources to ensure that the IA has the necessary resources to adequately perform its functions.

To ensure the adequacy of the internal audit functions, the AC has reviewed the IA's activities, the IA's resources and standing in the Company, on a yearly basis.

Corporate Governance Report

D. COMMUNICATION WITH SHAREHOLDERS

Principle 14: Communication with Shareholders
Principle 15: Greater Shareholder Participation

The Board is mindful of its obligations to provide timely and fair disclosure of material information to its shareholders. All corporate news, strategies and announcements are promptly disseminated through the SGXNET system, press releases, annual reports, and other various media including our corporate website (http://www.ecowater.com.sg).

All shareholders of the Company receive the Annual Report of the Company and the notice of AGM within the mandatory period. To facilitate voting by shareholders, the Company's Articles allows shareholders to vote by appointing one or two proxies. The "bundling" of resolutions are avoided unless they are interdependent and linked to each other. The Chairpersons of the Audit, Remuneration and Nominating Committees, and the external auditors, are normally available at the meeting to answer questions relating to the general questions, work of their committees, conduct of audit and the preparation and content of the auditors' report.

E. DEALING IN SECURITIES

The Company has adopted the Code of Best Practices on Securities Transaction that is in line with the SGX-ST Best Practices Guide (the "Guide").

The Company and its officers are aware that it is an offence to deal in its securities as well as securities of other listed issuers when the officers are in possession of unpublished material price-sensitive information in relation to those securities.

In accordance with Guideline 4 of the Guide, the Company and its officers are advised not to deal in the Company's securities on short-term considerations and during the period commencing two weeks before the announcement of the Company's half-yearly and one month before the announcement of the Company's full year results and ending on the date of the announcement of these results.

Directors and executives are also expected to observe insider trading laws at all times even when dealing with securities within permitted trading period(s).

F. BEST PRACTICES GUIDE

The Board confirms that during the financial year ended 31 December 2006, the Company has complied materially with the Best Practices Guide issued by SGX-ST in accordance Rule 710(2) of the Listing Manual by adopting internal controls and codes of conduct and that they are adequate for its current operations.

G. MATERIAL CONTRACTS

In accordance with Rule 1207(8) of the Listing Manual, there are no material contracts entered into by the Company or its subsidiaries for the benefit of the Directors or controlling shareholders during the financial year ended 31 December 2006.

H. RISK MANAGEMENT POLICIES AND PROCESSES

The Management regularly reviews the Group's business and operational activities to identify areas of significant business risks as well as to take appropriate measures to control and mitigate these risks within the Group's policies and strategies.

Corporate Governance Report

I. INTERESTED PERSON TRANSACTIONS

The AC reviews all interested person transactions of the Group to ensure the Company complies with Chapter 9 of the SGX-ST Listing Manual on interested person transactions.

The following interested person transactions took place between the Group and interested persons during the financial year ended 31 December 2006:

Name of Interested Person (In $'000)	Aggregate value of all interested person transactions during the period under review (excluding transactions less than $ 100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than $ 100,000)
Ramatex Textiles Industrial Sdn Bhd	N.A	1,234
Ramatex Printing Garment (Suzhou) Ltd	N.A	1,265
Ramatex Textiles Namibia (Pty) Ltd	N.A	295

Ramatex Textiles Industrial Sdn Bhd, Ramatex Printing Garment (Suzhou) Ltd and Ramatex Textile Namibia (Pty) Ltd are subsidiaries of Ramatex Berhad, a company listed on the Bursa Malaysia Securities Berhad and which is principally engaged in the manufacturing of textiles. The Company's substantial shareholder Gimmill Industrial Pte Ltd has equity interest in Ramatex Berhad.

Report of the Directors

The directors present their report to the members together with the audited consolidated financial statements of the Group for the year ended 31 December 2006 and the balance sheet of the Company as at 31 December 2006.

Directors

The directors of the Company in office at the date of this report are:

Mr. Ting Teck Jin	(appointed as Executive Chairman on 8 January 2007)
Dr. Tan Joo Chai	
Mr. Ravishankar Chandrasekhara Vaidya	
Mr. Tan Soo Kiat	
Mr. Terrance Tan Kong Hwa	(appointed on 8 January 2007)
Ms. Lim May Lan	(appointed on 8 January 2007)

Arrangements for Directors to Acquire Shares or Debentures

Neither at the end nor at any time during the financial year was the Company a party to any arrangements whose object is to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' Interests in Shares or Debentures

(a) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Holdings registered in name of director or nominee		Holdings in which a director is deemed to have an interest	
	At beginning of the year/date of appointment	At end of the year	At beginning of the year/date of appointment	At end of the year
The Company				
(Ordinary shares)				
Mr Ting Teck Jin	–	–	22,812,500#	22,812,500#
Dr. Tan Joo Chai	20,816,662	23,816,662	3,000,000*	1,000
Mr. Ravishankar Chandrasekhara Vaidya	50,000	50,000	–	–
Mr. Tan Soo Kiat	50,000	50,000	–	–
Subsidiary Company				
EMS Offshore Pte Ltd				
(Ordinary shares)				
Mr. Ting Teck Jin	–	–	225,001#	225,001#

* These shares were pledged to Hong Leong Nominees Pte Ltd as security for banking facilities.

\# These shares are held in the name of Koastal Industries Pte Ltd in which Mr Ting Teck Jin is a director and controlling shareholder.

Report of the Directors

Directors' Interests in Shares or Debentures (cont'd)

(b) According to the register of directors' shareholdings, certain directors holding office at the end of the financial year had interests in the options to subscribe for ordinary shares of the Company granted pursuant to the Company Employee Share Option Scheme as set out below and in the paragraphs on "Share Options".

	Number of unissued ordinary shares under option held by directors	
	As at 31 December 2006	As at 1 January 2006
2004 Options		
Mr. Tan Soo Kiat	120,000	120,000
Mr. Ravishankar Chandrasekhara Vaidya	300,000	300,000
Prof. Chen Guanghao (resigned on 31 December 2006)	–	50,000

(c) By virtue of Section 7 of the Act, Dr .Tan Joo Chai is deemed to have interests in other subsidiaries at the beginning of the financial year and Mr Ting Teck Jin is deemed to have interests in other subsidiaries at the end of the financial year.

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, debenture, warrants or share options of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment if later, or at the end of the financial year.

(d) There were no changes in any of the abovementioned interests in the Company between the end of the financial year and 23 March 2007.

Directors' Contractual Benefits

Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest, except as disclosed in the financial statements and in this report.

Share Options

Eco Water Employee Share Option Scheme

The Eco Water Employee Share Option Scheme (the "Scheme") for directors and employees of the Group was approved by members of the Company at an Extraordinary General Meeting on 12 May 2003. The Scheme is administered by the Company's Remuneration Committee, comprising three directors, Mr. Terrance Tan Kong Hwa, Mr. Tan Soo Kiat and Ms. Lim May Lan.

Other information regarding the Scheme is set out below:

(a) The exercise price of the options can be set at a discount to the market price not exceeding 20% of the market price in respect of options granted at the time of grant.

(b) The options may be exercised 1 year after the grant for market price options and 2 years for discounted options. Further vesting period for the exercise of the options may be set.

(c) All options are settled by physical delivery of shares.

The Scheme became operative with 2,071,000 share options being granted pursuant to the Scheme on 28 June 2004 ("2004 Options"). Particulars of 2004 Options were set out in the Directors' Report for the financial year ended 31 December 2004.

Report of the Directors

Share Options (cont'd)

At the end of the financial year, details of the options granted under the Scheme on the unissued ordinary shares of $0.204 each of the Company are as follows:

Date of grant of option	Exercise price per share	Options outstanding at 1 January 2006	Options forfeited	Options outstanding at 31 December 2006	Number of option holders at 31 December 2006	Exercise period
	$					
28 June 2004	0.204	1,798,000	(410,000)	1,388,000	28	29-6-2004 to 28-6-2015

Except as disclosed above, there were no unissued shares of the Company or its subsidiaries under options granted by the Company or its subsidiaries as at the end of the financial year.

Pursuant to Rule 852 of the SGX-ST's Listing Manual, the information relating to the Scheme is set out below:

Options participants	Aggregate options outstanding as at beginning of financial year under review	Aggregate options granted since commencement of scheme to end of financial year under review	Aggregate options exercised since commencement of scheme to end of financial year under review	Aggregate options forfeited since commencement of scheme to end of financial year under review	Aggregate options outstanding as at end of financial year under review
Directors of the Company					
Mr. Tan Soo Kiat	120,000	120,000	–	–	120,000
Mr.Ravishankar Chanrasekhara Vaidya	300,000	300,000	–	–	300,000
Prof. Chen Guanghao (Resigned on 31 December 2006)	50,000	50,000	–	(50,000)	–
Director of Subsidiary Company					
Mr. Teng Ah Ching	93,000	93,000	–	–	93,000
Participant who received more than 5% of total option available					
Ms. See May Yee (Resigned on 16 November 2006)	126,000	126,000	–	(126,000)	–
Other participants					
Employees of the Group	1,109,000	1,109,000	–	(234,000)	875,000
	1,798,000	1,798,000	–	(410,000)	1,388,000

Since the commencement of the Scheme, no options have been granted to the controlling shareholders of the Company or their associates and no participant under the Scheme has been granted 5% or more of the total options available under the Scheme.

The options granted by the Company do not entitle the holders of the options, by virtue of such holding, to any rights to participate in any share issue of any other company.

Report of the Directors

Audit Committee

The members of the Audit Committee at the date of this report are:

Ms. Lim May Lan (Chairman)
Mr. Terrance Tan Kong Hwa
Mr. Tan Soo Kiat

All members of the Audit Committee are non-executive directors; however, Mr. Tan Soo Kiat is a non-independent director.

The Audit Committee carried out its functions in accordance with Section 201B(5) of the Act, the Singapore Exchange Securities Trading Limited Listing Manual and the Code of Corporate Governance 2005. The nature and extent of the functions performed by the Audit Committee are further described in the Corporate Governance Report.

The Audit Committee has recommended to the Board of Directors the re-appointment of Nexia Tan & Sitoh as auditors of the Company at the forthcoming Annual General Meeting.

Auditors

The auditors, Nexia Tan & Sitoh, have indicated their willingness to accept re-appointment.

For and on behalf of the Board of Directors

Mr. Ting Teck Jin
Director

Dr. Tan Joo Chai
Director

Singapore
4 April 2007

Statement by Directors

We, Mr. Ting Teck Jin and Dr. Tan Joo Chai, being directors of Eco Water Limited, do hereby state that in our opinion,

(a) the consolidated financial statements of the Group and the balance sheet of the Company as set out on pages 29 to 72 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2006 and the results of the business, changes in equity and cash flows of the Group for the year then ended; and

(b) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On Behalf of the Board of Directors

Mr. Ting Teck Jin
Director

Dr. Tan Joo Chai
Director

Singapore
4 April 2007

Report of the Auditors

to the Members of Eco Water Limited

We have audited the financial statements of Eco Water Limited (the "Company") as set out on pages 29 to 72 for the financial year ended 31 December 2006, comprising the consolidated financial statements of the Group and the balance sheet of the Company.

Directors' Responsibility for the Financial Statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with Singapore Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

We believe that our audit provides a reasonable basis for our opinion.

Without qualifying our opinion, we draw attention to Note 2(a)(ii) to the financial statements, which appropriately describes the uncertainty related to the going concern of the Group and the Company. The financial statements of the Group and the balance sheet of the Company are presented on a going concern basis although the net cash generated from operating activities of the Group is negative and the Group recorded an operating loss before working capital of $950,000 (2005: $3,138,000). A subsidiary company has not complied with various major financial covenants as stated in the term loan agreement with a financial institution (Note 19). The borrowings with this financial institution amount to $2,716,000 (2005: $4,939,000). As at balance sheet date, no action has been taken by the financial institution. The Group also has commitments for capital expenditure of $5,044,000 (2005: $5,901,000) (Note 29(b)) which the business continuity of that subsidiary depends on the outcome of approval from the authority and continuing support of the Group's bankers. In 2006, the Group wrote off deferred expenditure and other receivables related to that subsidiary amounting to $2,162,000. The directors believe that based on the discussion they had with the financial institution and the projected operation in financial year 2007, the going concern basis of preparation of accounts is appropriate. The financial statements do not include any adjustments to the balance sheet. If the Group and the Company were unable to continue in operational existence for the foreseeable future, adjustments may have to be made to reflect the situation that assets may need to be realised other than in the amounts at which they are currently recorded in the balance sheet. In addition, the Group and the Company may have to provide for further liabilities that might arise and to reclassify property, plant and equipment and long term liabilities as current assets and liabilities.

Report of the Auditors

to the Members of Eco Water Limited

Opinion

In our opinion,

(a) the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Companies Act, Cap 50 ("the Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2006, and the results, changes in equity and cash flows of the Group for the financial year ended on that date; and

(b) the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Nexia Tan & Sitoh
Certified Public Accountants

Singapore
4 April 2007

Balance Sheet

as at 31 December 2006

	Note	The Group 2006 $'000	The Group 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Non–current assets					
Property, plant and equipment	5	3,343	1,228	–	–
Intangible assets	6	–	366	–	–
Investments in subsidiary companies	7	–	–	9,653	6,443
Investments in associates	8	139	–	194	–
Investment in partnership	9	301	316	–	–
Goodwill on consolidation	10	3,250	1,024	–	–
Other investments	11	53	461	–	–
Deferred tax assets	20	653	704	–	–
		7,739	4,099	9,847	6,443
Current assets					
Inventories	12	45	66	–	–
Due from customers on construction contracts	13	2,270	2,486	–	–
Trade and other receivables	14	11,226	9,090	5,140	2,807
Cash and cash equivalents	16	2,119	4,634	30	2,660
		15,660	16,276	5,170	5,467
Total Assets		23,399	20,375	15,017	11,910
Current liabilities					
Trade and other payables	17	6,091	2,304	1,376	872
Due to customers on construction contracts	13	648	817	–	–
Hire purchase creditors	18	128	156	–	–
Borrowings	19	4,226	3,893	–	–
Provision for taxation		373	154	–	–
		11,466	7,324	1,376	872
Non–current liabilities					
Hire purchase creditors	18	53	190	–	–
Borrowings	19	3,097	3,707	–	–
		3,150	3,897	–	–
Total Liabilities		14,616	11,221	1,376	872
NET ASSETS		8,783	9,154	13,641	11,038
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	21	13,361	8,717	13,361	8,717
Reserves	22	(5,872)	102	280	2,321
		7,489	8,819	13,641	11,038
Minority interests		1,294	335	–	–
Total Equity		8,783	9,154	13,641	11,038

The accompanying notes are an integral part of the financial statements

Consolidated Income Statement

for the financial year ended 31 December 2006

	Note	The Group 2006	2005
		$'000	$'000
Revenue	23	16,185	11,829
Cost of sales		(13,558)	(13,026)
Gross profit / (loss)		2,627	(1,197)
Other income	24	122	201
Administrative expenses		(6,496)	(3,404)
Finance costs	25	(471)	(448)
Share of results of associates	8	(55)	–
Share of results of partnership	9	19	(17)
Loss before taxation	26	(4,254)	(4,865)
Income tax expense	27	(85)	1,005
Loss after taxation		(4,339)	(3,860)
Attributable to:			
Equity holders of the Company		(4,508)	(3,889)
Minority interests		169	29
Loss for the year		(4,339)	(3,860)
Loss per share (cents)			
– Basic	28	(4.09)	(3.71)
– Diluted	28	(4.09)	(3.71)

The accompanying notes are an integral part of the financial statements

Consolidated Statement of Changes in Equity

for the financial year ended 31 December 2006

	Share Capital	Share Premium	Capital reserve	Retained profits/ (Accumulated Loss)	Foreign Currency Translation	Share Options Reserve	Total attributable to equity holders of the Company	Minority interests	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
As at 1 January 2006	8,717	3,047	–	(2,569)	(520)	144	8,819	335	9,154
Effect of Companies (Amendment) Act 2005	3,047	(3,047)	–	–	–	–	–	–	–
Issue of new shares	1,597	–	–	–	–	–	1,597	–	1,597
Share based payment	–	–	–	–	–	216	216	–	216
Shares to be issued	–	–	1,597	–	–	–	1,597	–	1,597
Currency translation differences	–	–	–	–	(232)	–	(232)	–	(232)
Minority Interest – Acquisition of subsidiary	–	–	–	–	–	–	–	790	790
Net (loss)/profit for the year	–	–	–	(4,508)	–	–	(4,508)	169	(4,339)
As at 31 December 2006	13,361	–	1,597	(7,077)	(752)	360	7,489	1,294	8,783

The accompanying notes are an integral part of the financial statements

Consolidated Statement of Changes in Equity

for the financial year ended 31 December 2006

	Share Capital	Share Premium	Retained profits/ (Accumulated Loss)	Foreign Currency Translation	Share Options Reserve	Total attributable to equity holders of the Company	Minority interests	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
As at 1 January 2005								
As previously stated	8,072	2,862	1,405	(548)	–	11,791	–	11,791
Adoption of FRS 102	–	–	(85)	–	144	59	–	59
As restated	8,072	2,862	1,320	(548)	144	11,850	–	11,850
Issue of share capital pursuant to rights issue	645	185	–	–	–	830	–	830
Currency translation differences	–	–	–	28	–	28	–	28
Minority Interest – Acquisition of subsidiary	–	–	–	–	–	–	306	306
Net (loss)/profit for the year	–	–	(3,889)	–	–	(3,889)	29	(3,860)
As at 31 December 2005	8,717	3,047	(2,569)	(520)	144	8,819	335	9,154

The accompanying notes are an integral part of the financial statements

Consolidated Cash Flow Statement

for the financial year ended 31 December 2006

	Note	2006	2005
		$'000	$'000
Cash Flows from operating activities			
Loss before taxation		(4,254)	(4,865)
Adjustments for:			
Amortisation of investments		–	1
Property, plant and equipment			
– Depreciation	5	291	364
– (Gain) / Loss on disposal		(6)	23
– Written off		32	15
Interest expense		471	448
Interest income		(24)	(109)
Allowance for doubtful receivables		331	1,022
Bad debts recovered		(145)	(676)
Share of results of associates and partnership		36	17
Currency alignment		(60)	564
Intangible assets and other receivables written off		2,162	–
Gain on disposal of investments		–	(1)
Share based payment		216	59
Operating loss before working capital changes		(950)	(3,138)
Decrease / (Increase) in receivables and work–in–progress		(442)	678
Decrease in inventories		18	4,798
Amount due to related parties		(22)	–
Increase / (Decrease) in payables		1,567	(3,223)
Cash flow generated from /(used in) operations		171	(885)
Interest paid		(471)	(448)
Taxes paid		(32)	(277)
Interest received		24	109
Net cash used in operating activities		(308)	(1,501)
Cash flows from investing activities			
Purchase of property, plant and equipment		(55)	(229)
Proceeds from disposal of property, plant and equipment		137	70
Investment in associates		(194)	–
Proceeds from disposal of other investment		389	–
Acquisition of subsidiaries, net of cash acquired	7	(733)	(134)
Interest in partnerships		–	(333)
Purchase of other investment		–	(450)
Increase in intangible assets		–	(366)
Net cash outflow in investing activities		(456)	(1,442)
Cash flows from financing activities			
(Increase) / Decrease in pledged fixed deposits		(63)	981
Proceeds from trade facilities		196	356
Proceeds from issuance of shares		1,597	–
Repayment of term loan		(1,749)	(1,229)
Repayment of hire purchase creditors		(218)	(224)
Net cash outflow in financing activities		(1,834)	(116)

The accompanying notes are an integral part of the financial statements

Consolidated Cash Flow Statement

for the financial year ended 31 December 2006

	Note	2006	2005
		$'000	$'000
Net decrease in cash and cash equivalents		(2,598)	(3,059)
Cash and cash equivalents at beginning of the year		2,782	5,851
Effects of exchange rate changes on opening cash and cash equivalents		–	(10)
Cash and cash equivalents at end of the year	18	184	2,782

The accompanying notes are an integral part of the financial statements

Notes to the Financial Statements

for the financial year ended 31 December 2006

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

The financial statements were authorised for issue by the directors on 4 April 2007.

1 General

Eco Water Limited (the "Company") is incorporated and domiciled in Singapore and is publicly traded on the Singapore Exchange Securities Trading Limited ("SGX-ST"). The address of its registered office is at 1 Robinson Road, #18-00 AIA Tower Singapore 048542 and principal place of business is at 10, Tuas Ave 11, Singapore 639076.

The principal activity of the Company is that of investment holding. The principal activities of the subsidiary companies are stated in Note 7 to the financial statements.

The consolidated financial statements relate to the Company and its subsidiary companies (referred to as the Group) and the Group's interests in associates.

2 Significant Accounting Policies

(a) Basis of preparation

(i) Financial Reporting Standards

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The financial statements are presented in Singapore Dollars and prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Interpretations and Amendments to Published Standards Effective in 2006

On 1 January 2006, the Group adopted the new or revised FRS and Interpretations to FRS ("INT FRS") that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the relevant transitional provisions in the respective FRS and INT FRS.

The following are the FRS and INT FRS that are relevant to the Group:-

FRS 19 (Amendment)	Employee Benefits
FRS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates
FRS 32 (Amendment)	Financial Instruments: Disclosures and Presentation
FRS 39 (Amendment)	Financial Guarantee Contracts
INT FRS 104	Determining whether an Arrangement contains a Lease

The adoption of these standards did not result in substantial changes to the Group's accounting policies.

2 Significant Accounting Policies (cont'd)

(a) Basis of preparation (cont'd)

(ii) Going concern basis

The financial statements of the Group and the balance sheet of the Company are presented on a going concern basis although the net cash generated from operating activities of the Group is negative and the Group recorded an operating loss before working capital of $950,000 (2005: $3,138,000). A subsidiary company has not complied with various major financial covenants as stated in the term loan agreement with a financial institution (Note 19). The borrowings with this financial institution amount to $2,716,000 (2005: $4,939,000). As at balance sheet date, no action has been taken by the financial institution. The Group also has commitments for capital expenditure of $5,044,000 (2005: $5,901,000) (Note 29(b)) which the business continuity of that subsidiary depends on the outcome of approval from the authority and continuing support of the Group's bankers. In 2006, the Group wrote off deferred expenditure and other receivables related to that subsidiary amounting to $2,162,000. The directors believe that based on the discussion they had with the financial institution and the projected operation in financial year 2007, the going concern basis of preparation of accounts is appropriate. The financial statements do not include any adjustments to the balance sheet. If the Group and the Company were unable to continue in operational existence for the foreseeable future, adjustments may have to be made to reflect the situation that assets may need to be realised other than in the amounts at which they are currently recorded in the balance sheet. In addition, the Group and the Company may have to provide for further liabilities that might arise and to reclassify property, plant and equipment and long term liabilities as current assets and liabilities.

(b) Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group's activities. Revenue is presented, net of value-added tax, rebates and discounts, and after eliminating sales within the Group. Revenue is recognized as follows:

(i) Goods sold and services rendered

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer which is taken to be the point when a Group entity has delivered the goods or rendered the services to the customer, the customer has accepted the goods or services and the collectibility of the related receivable is reasonably assured.

(ii) Construction Contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in the income statement by reference to the stage of completion of the contract activity at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately in the income statement. Detailed accounting policy on construction contracts is disclosed in Note 2 (f).

(iii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

2 Significant Accounting Policies (cont'd)

(c) Group Accounting

(i) Subsidiary Companies

Subsidiary companies are entities (including special purpose entitles) over which the Group has power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiary companies by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the date of acquisition, irrespective of the extent of any minority interest. Please refer to note 2(c) (iv) for the accounting policy on goodwill on acquisition of subsidiary companies.

Subsidiary companies are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provide evidence of an impairment of the asset transferred. Accounting policies of subsidiary companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests are that part of the net results of operations and of net assets of a subsidiary company attributable to interests which are not owned directly or indirectly by the Group. It is measured at the minorities' share of the fair values of the subsidiary companies' identifiable assets and liabilities at the date of acquisition by the Group and the minorities' share of changes in equity since the date of acquisition, except when the losses applicable to the minority interests in a subsidiary company exceed the minority interests in the equity of that subsidiary company. In such cases, the excess and further losses applicable to the minority interests are attributed to the equity holders of the Company, unless the minority interests have a binding obligation to, and is able to, make good the losses. When that subsidiary company subsequently reports profits, the profits applicable to the minority interests are attributed to the equity holders of the Company until the minority interest's share of losses previously absorbed by the equity holders of the Company have been recovered.

Please refer to note 2(g) for the Company's accounting policy on investments.

(ii) Associates

Associates are entities over which the Group has significant influence, but not control, generally accompanied by a shareholding of between and including 20% and 50% of the voting rights. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. Investments in associates in the consolidated balance sheet include goodwill (net of accumulated impairment loss) identified on acquisition. Please refer to the paragraph "Intangible assets – Goodwill" for the Group's accounting policy on goodwill.

Investments in associates are initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

2 Significant Accounting Policies (cont'd)

(c) Group Accounting (cont'd)

(ii) Associates (cont'd)

In applying the equity method of accounting, the Group's share of its associates' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in equity directly. These post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has obligations or has made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

(iii) Partnership

A partnership is one where the Group has an interest and a share in the profit or loss and the net assets of the partnership.

In the Company's balance sheet, investments in partnerships are stated at cost less impairment losses.

Investments in partnerships are accounted for in the consolidated financial statements under the equity method.

The Group's share of the post-acquisition results of the partnership is included in the consolidated income statement using the most recent available audited financial statements. Where the audited financial statements are not available, the Group's share is based on the unaudited financial statements. Any differences between the unaudited financial statements and the audited financial statements obtained subsequently are adjusted for in the following year.

The Group's share of the post-acquisition retained profits and reserves of the partnership is included in the consolidated balance sheet under interests in partnerships.

(iv) Goodwill

Goodwill represents the excess of the cost of an acquisition of subsidiary companies or associates over the fair value of the Group's share of their identifiable net assets at the date of acquisition. Goodwill for acquisitions post 1 January 2005 is determined after deducting the Group's share of their identifiable net assets and contingent liabilities.

Goodwill recognised as intangible assets is stated at cost less accumulated impairment losses (note 2(h)(i)). Goodwill is tested for impairment at least annually.

Goodwill on the acquisition of subsidiaries is presented as intangible assets. Goodwill on the acquisition of associates is presented together with investment in associates.

2 Significant Accounting Policies (cont'd)

(d) Property, Plant and Equipment

(i) Land and buildings

Land and buildings are initially recorded at cost. Freehold land is subsequently carried at fair value less accumulated impairment losses (note 2(h)(ii)). Buildings and leasehold land are subsequently stated at fair value less accumulated depreciation and accumulated impairment losses (note 2(h)(ii)).

When an asset is revalued, any accumulated deprecation at the date of revaluation is eliminated against the gross carrying amount of the asset; the net amount is then restated to the revalued amount of the asset. Revaluation surpluses are taken to the asset revaluation reserve, unless they offset previous revaluation losses of the same asset that were taken to the income statement. Revaluation losses are taken to the asset revaluation reserve, to the extent that they offset previous revaluation surpluses of the same asset that were taken to the asset revaluation reserve. Other revaluation surpluses or losses are taken to the income statement.

(ii) Other property, plant and equipment

All other items of property, plant and equipment are initially recognized at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses (note 2(h)(ii)).

(iii) Components of cost

The cost of an item of property, plant and equipment includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(iv) Depreciation

Freehold land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using a straight line method to allocate the depreciable amounts over their estimated useful lives as follows:

Leasehold land and Buildings	the shorter of 50 years and the lease term
Plant and machinery	10 years
Equipment	10 years
Motor vehicles	5 years
Furniture and fittings	10 years

The residual values and useful lives of property, plant and equipment are reviewed and adjusted as appropriate, at each balance sheet date. The effects of any revision of the residual values and useful lives are included in the income statement for the financial year in which the changes arise.

(v) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Other subsequent expenditure is recognised as repair and maintenance expense in the income statement during the financial year in which it is incurred.

(vi) Disposal

On disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is taken to the income statement. Any amount in revaluation reserve relating to that asset is transferred to retained earnings directly.

2 Significant Accounting Policies (cont'd)

(e) Intangible Assets

Development expenditure

Intangible assets recorded in the previous financial year ended represent development expenditure incurred in relation to the hydropower station development project which has not been physically constructed.

During the financial year, the development expenditure has been written off in the financial statements.

(f) Construction Contracts

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and functions or their ultimate purpose or use.

Contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date (percentage-of-completion method). When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are likely to be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Contract revenue comprises the initial amount of revenue agreed in the contract and variations in the contract work and claims that can be measured reliably. A variation or a claim is only included in contract revenue when it is probable that the customer will approve the variation or negotiations have reached an advanced stage such that it is probable that the customer will accept the claim.

The stage of completion is measured by reference to the contract costs incurred to date to the estimated total costs for the contract. Costs incurred during the financial year in connection with future activity on a contract are excluded from costs incurred to date when determining the stage of completion of a contract. Such costs are shown as construction contract work-in-progress on the balance sheet unless it is not probable that such contract costs are recoverable from the customers, in which case,such costs are recognised as an expense immediately.

At the balance sheet date, the aggregated costs incurred plus recognised profit (less recognised loss) on each contract is compared against the progress billings. Where costs incurred plus the recognised profits (less recognised losses) exceed progress billings, the balance is presented as due from customers on construction contracts, under current assets. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is presented as due to customers on construction contracts, under current liabilities.

Progress billings not yet paid by customers and retentions are included within "trade and other receivables".

2 Significant Accounting Policies (cont'd)

(g) Investments in Subsidiary Companies, Associates and Partnership

Investments in subsidiary companies, associates and partnerships are stated at cost less accumulated impairment losses in the Company's balance sheet. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

On disposal of an investment in subsidiary companies, associates and partnership, the difference between net disposal proceeds and its carrying amount is taken to the income statement.

(h) Impairment of Non-financial Assets

(i) Goodwill

Goodwill is tested annually for impairment, as well as when there is any indication that the goodwill may be impaired.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating units (CGU) expected to benefit from synergies of the business combination.

An impairment loss is recognised in the income statement when the carrying amount of CGU, including the goodwill, exceeds the recoverable amount of the CGU. Recoverable amount of the CGU is the higher of the CGU's fair value less cost to sell and value in use.

The total impairment loss is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

Impairment loss on goodwill is not reversed in a subsequent period.

(ii) Intangible assets, property, plant & equipment and investments in subsidiary companies, associates and partnerships

Intangible assets, property, plant and equipment and investments in subsidiary companies, associates and partnerships are reviewed for impairment whenever there is any indication that these assets may be impaired. If any such indication exists, the recoverable amount (i.e. the higher of the fair value less cost to sell and value in use) of the asset is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The impairment loss is recognised in the income statement unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease.

2 Significant Accounting Policies (cont'd)

(h) Impairment of Non-financial Assets (cont'd)

(ii) Intangible assets, property, plant & equipment and investments in subsidiary companies, associates and partnerships (cont'd)

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in the income statement, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

(i) Financial Assets

The Group's and Company's financial assets which are within the scope of FRS 39 are classified as either loans and receivables, or at fair value through income statement, as appropriate. Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provision of the financial instrument. The Group and the Company determine the classification of the financial assets after initial recognition and, where allowed and appropriate, re-evaluate this designation at each financial year end.

(i) Loans and Receivables

Loans and receivables, including trade and other receivables, are initially recognised at fair value and subsequently at amortised cost less allowances for impairment.

An allowance for impairment of loans and receivables, including trade and other receivables, is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of allowance is recognized in the income statement.

(ii) Financial assets, at fair value through income statement

Marketable securities are held for trading. Marketable securities are recognised at fair value through profit and loss account.

(j) Financial Guarantees

The Company has issued corporate guarantees to banks for bank borrowings of its subsidiaries. These guarantees are financial guarantee contracts as they require the Company to reimburse the banks if the subsidiaries fail to make principal or interest payments when due in accordance with the terms of their borrowings.

Financial guarantee contracts are initially recognised at their fair values plus transaction costs.

Financial guarantee contracts are subsequently amortised to the income statement over the period of the subsidiaries' borrowings, unless the Company has incurred an obligation to reimburse the bank for an amount higher than the unamortised amount.

In this case, the financial guarantee contracts shall be carried at the expected amount payable to the bank.

2 Significant Accounting Policies (cont'd)

(k) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings which are due to be settled within 12 months after the balance sheet date are presented as current borrowings even though the original term was for a period longer than 12 months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue. Other borrowings due to be settled more than 12 months after the balance sheet date are presented as non-current borrowings in the balance sheet.

(l) Trade and Other Payables

Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

(m) Fair Value Estimation

The carrying amounts of current financial assets and liabilities, carried at amortised cost, are assumed to approximate their fair values.

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets held by the Group are the current bid prices; the appropriate quoted market prices for financial liabilities are the current ask prices. The fair values of forward currency contracts are determined using actively quoted forward currency rates at the balance sheet date. The fair values of interest-rate swaps are calculated as the present value of the estimated future cash flows, discounted at actively quoted interest rates.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as estimated discounted cash flows, are also used to determine the fair values of the financial instruments.

The fair values of financial liabilities carried at amortised cost are estimated by discounting the future contractual cash flows at the current market interest rates that are available to the Group for similar financial liabilities.

(n) Leases

Finance leases

Leases of property, plant and equipment where the Group assumes substantially the risks and rewards of ownership are classified as finance leases.

The leased assets and the corresponding lease liabilities (net of finance charges) under finance leases are recognised on the balance sheet as property, plant and equipment and borrowings respectively at the inception of the leases at the lower of the fair values of the leased assets and the present values of the minimum lease payments.

Each lease payment is apportioned between the finance charge and the reduction of the outstanding lease liability. The finance charge is recognised in the income statement and allocated to each period during the lease term so as to achieve a constant periodic rate of interest on the remaining balance of the finance lease liability.

2 Significant Accounting Policies (cont'd)

(n) Leases (cont'd)

Operating leases

Leases of property, plant and equipment in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the year in which termination takes place.

(o) Inventories

Inventories, which are made up mainly of materials and components, are stated at the lower of cost and net realisable value. Cost comprises the invoiced value of goods which is determined on a first-in-first-out basis together with the related charges incurred in importing such goods. Net realisable value is the estimated selling price less anticipated cost of disposal. Allowance is made for damaged, obsolete and slow-moving inventories.

(p) Income Taxes

Current Taxation

Current income tax liabilities (and assets) for current and prior periods are recognised at the amounts expected to be paid to (or recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date.

Deferred Taxation

Deferred income tax assets or liabilities are recognised for all deductible taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax assets or liabilities arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income tax liability is recognised on temporary differences arising on investments in subsidiary companies, associates and partnerships, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are measured at:

(1) the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date; and

(2) the tax consequence that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income tax are recognised as income or expenses in the income statement for the period, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity.

2 Significant Accounting Policies (cont'd)

(q) Provisions

Provisions required for asset dismantlement, removal or restoration, warranty, restructuring and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

The Group recognises the estimated liability to repair or replace products still under warranty at the balance sheet date. This provision is calculated based on past historical experience of the level of repairs and replacements.

The Group recognizes the estimated costs of dismantlement, removal or restoration of items of property, plant and equipment arising from the acquisition or use of assets. This provision is estimated based on the best estimate of the expenditure required to settle the obligation, taking into consideration time value.

Changes in the estimated timing or amount of the expenditure or discount rate are adjusted against the cost of the related property, plant and equipment unless the decrease in the liability exceeds the carrying amount of the asset or the asset has reach the end of its useful life. In such cases, the excess of the decrease over the carrying amount of the asset or the changes in the liability is recognised in the income statement immediately.

(r) Employee Benefits

(i) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The Group's contributions are recognised as employee compensation expense when they are due.

(ii) Employee leaves entitlement

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of service rendered by employees up to the balance sheet date.

(iii) Share based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the income statement with a corresponding increase in the share option reserve over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of options granted on the date of grant. Non-market vesting conditions are included in the estimation of the number of shares under options that are expected to become exercisable on the vesting date. At each balance sheet date, the Group revises its estimates of the number of shares under options that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in the income statement with a corresponding adjustment to the share option reserve over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

2 Significant Accounting Policies (cont'd)

(s) Foreign Currencies

(i) Functional and Presentation Currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in Singapore Dollar, which is the Company's functional currency.

(ii) Transaction and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of transactions. Foreign currency monetary assets and liabilities are translated into the functional currency at the exchange rate prevailing at the balance sheet date or at contracted rates where they are covered by forward exchange contracts. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at financial year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are taken to the profit and loss account.

(iii) Translation of Group Entities' Financial Statements

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities are translated at the closing rates at the date of the balance sheet;

(ii) Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and

(iii) All resulting exchange differences are taken to the currency translation reserve within equity.

(t) Segment Reporting

The Group's primary format for reporting segment information is business segments, with each segment representing a strategic business segment that offers different product or services.

(u) Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash and bank balances, unencumbered fixed deposits at call and that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value, net of outstanding bank overdrafts.

3 Effects on Financial Statements on Adoption of New or Revised FRS

Financial Guarantee Contracts

Previously, financial guarantees issued by the Company to banks in relation to borrowings by subsidiaries are accounted for as contingent liabilities of the Company and are not recognised in the financial statements until the Company has incurred an obligation to make payment under the guarantee.

FRS 39 (Amendment) Financial Guarantee Contracts, effective from 1 January 2006,requires financial guarantees to be accounted for in a manner as set out in Note 2 (j) to the financial statements.

The revised FRS 39 has been applied retrospectively and does not result in material adjustments to the balance sheet of the Company at 31 December 2005 and 1 January 2006.

The adoption of the revised FRS 39 does not have a material impact on the financial results of the Company and the Group for the year ended 31 December 2006.

4 Critical Accounting Estimates, Assumptions and Judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. (Note 10)

(ii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the capital allowances and deductibility of certain expenses during the estimation of the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

(iii) Construction contracts

The Group uses the percentage-of-completion method in accounting for its contract revenue where it is probable that contract costs are recoverable. The stage of completion is measured by reference to the contract costs incurred to date to the estimated total costs for the contract.

Significant judgement is required in determining the stage of completion, the extent of the contract costs incurred, the estimated total contract revenue and contract costs, as well as the recoverability of the contracts. Total contract revenue also includes an estimation of the variation works and claims thatare recoverable from the customers. In making the judgement, the Group has relied on past experience and the work of specialists.

5 Property, Plant and Equipment

	Freehold land and buildings	Leasehold land and building	Plant and machinery	Equipment	Motor vehicles	Furniture fittings	Total
Group	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cost or valuation							
As at 1 January 2006	230	–	398	647	716	123	2,114
Additions	–	–	–	39	11	5	55
Addition via the acquisition of subsidiary company							
- Cost	–	–	785	160	132	–	1,077
- Valuation	–	2,300	–	–	–	–	2,300
Disposals	–	–	(168)	(44)	(63)	–	(275)
Write off	–	–	–	(123)	(9)	(2)	(134)
Currency realignment	(9)	–	(16)	(25)	(28)	(5)	(83)
As at 31 December 2006	221	2,300	999	654	759	121	5,054
Accumulated Depreciation							
As at 1 January 2006	14	–	95	394	341	42	886
Charge for the year	5	–	57	99	116	14	291
Addition via the acquisition of subsidiary company	–	–	655	102	61	–	818
Disposals	–	–	(51)	(34)	(62)	–	(147)
Write off	–	–	–	(93)	(7)	(2)	(102)
Currency realignment	(1)	–	(4)	(14)	(14)	(2)	(35)
As at 31 December 2006	18	–	752	454	435	52	1,711
Depreciation for 2005	5	–	80	131	134	14	364
Net Book Value							
As at 31 December 2006	203	2,300	247	200	324	69	3,343
As at 31 December 2005	216	–	303	253	375	81	1,228

(a) Net book values of motor vehicles amounting to $118,000 (2005: $537,000) and plant and machinery amounting to $91,000 (2005: $125,000) were financed under hire purchase.

(b) The following major property of the Group at net book value are included under property, plant and equipment:

	2006	2005
	$'000	**$'000**
Leasehold land and building and their location		
10 Tuas Avenue 11 Singapore 639076	2,300	–

The leasehold land and building of the Group were valued on the basis of open market value by an independent professional valuer on 7 February 2007.

5 Property, Plant and Equipment (Cont'd)

(c) If the land and building stated at valuation had been included in the financial statements at cost less depreciation, the net book value would have been as follows:

	2006	2005
	$'000	$'000
Leasehold land and building	1,637	–

(d) Properties of the Group with carrying amounts of $2,404,435 (2005:$111,000) are pledged to financial institutions for banking facilities. (Note 19)

6 Intangible Assets

	The Group	
	2006	2005
	$'000	$'000
Development expenditure		
At 1 January	366	–
Professional fee incurred for:		
- Environmental impact study	–	83
- Feasibility study	–	231
- Sewerage planning	–	52
	–	366
Development expenditure written off	(366)	–
At 31 December	–	366

The intangible assets represent cost incurred for development expenditure in the previous financial year in relation to the hydropower station development project which was undertaken by a wholly-owned subsidiary company, Yunnan Asia Eco Hydro Power Development Co., Ltd. The subsidiary company had temporarily ceased its operation during the financial year.

7 Investments in Subsidiary Companies

	The Company	
	2006	2005
	$'000	$'000
Unquoted ordinary shares at costs		
- Tropical Interest Sdn Bhd	6,072	6,072
- Eco Water Technologies Pte Ltd	#	#
- Asia Eco Environmental Technologies Pvt Ltd	387	371
- EMS Offshore Pte Ltd	3,194	–
	9,653	6,443

This denotes $2.

7 Investments in Subsidiary Companies (Cont'd)

The principal activities, country of incorporation and place of business of the subsidiary companies as at 31 December 2006 are as follows:

Name of company/Entity	Principal Activities	Country of Incorporation /Place of operation	Group's Effective Interest 2006 %	Group's Effective Interest 2005 %
Tropical Interest Sdn Bhd [a]	Environmental protection and pollution control systems and equipment	Malaysia	100	100
Eco Water Technologies Pte Ltd [b]	Carry on the business of general trading	Singapore	100	100
Asia Eco Environmental Technologies Pvt Ltd [c]	Investment holdings	India	100	100
EMS Offshore Pte Ltd [d]	Investment holdings	Singapore	70	–
Held by Tropical Interest Sdn Bhd				
Good Quality Engineering Sdn Bhd [a]	Carry on the business of construction of sewage treatment plants	Malaysia	100	100
Airchem Holdings Sdn Bhd [a]	Investment holdings	Malaysia	52.38	52.38
Yunnan Asia Eco Hydro Power Development Co., Ltd [a]	Carry on the business of conducting hydroelectric activities and hydropower development	People's Republic of China	100	100
Eco Water Environmental Service (Labuan) [e]	Dormant	Malaysia	100	100
Held by Airchem Holdings Sdn. Bhd.				
Airchem Environmental Technologies Sdn Bhd [a]	Environmental consultants and engineers in air pollution control system	Malaysia	100	100
Airchem Technologies Pte Ltd [b]	Environmental consultants and engineers in air pollution control system	Singapore	100	100
Held by Airchem Technologies Pte Ltd				
Airchem Environmental (Suzhou) Co., Ltd [f]	Environmental consultants and engineers in air pollution control system	People's Republic of China	100	100
Held by EMS Offshore Pte Ltd				
Engineering & Marine Services (Pte.) Ltd [d]	Fabrication of engineering equipment & services for oil & gas and offshore marine industries	Singapore	52.50	–

7 Investments in Subsidiary Companies (Cont'd)

(a) Audited by Monteiro & Heng, member firm of Nexia International
(b) Audited by Nexia Tan & Sitoh, member firm of Nexia International
(c) Audited by B N Subramanya & Co and reviewed by Chaturvedi & Shah, member firm of Nexia International
(d) Audited by Shangyew Public Accounting Corporation
(e) Not required to be audited in country of incorporation
(f) Audited by Nexia Tan & Sitoh (for consolidation purposes)

On 1 December 2006, the Company acquired 70% equity interest in EMS Offshore Pte Ltd, a company incorporated in Singapore, for a purchase consideration of $3,193,750. The purchase consideration was satisfied by the allotment and the issuance of 45,625,000 new Company shares at an issued price of $0.07 each.

The effect of acquisitions of subsidiaries is set out below:

	Fair values of net assets acquired
	$'000
Property, plant and equipment	2,561
Goodwill on consolidation	139
Trade and other receivables	2,371
Cash and bank balances	864
Trade and other payables	(2,317)
Borrowings and leases	(1,550)
Tax liabilities	(198)
Fair value of total net assets	1,870
Less: Minority interest	(846)
Group's share of net assets	1,024
Goodwill on consolidation	2,170
Cost of acquisition	3,194
Less: Ordinary shares issued, at fair value	(1,597)
Less: Cash and cash equivalents of subsidiaries acquired	(864)
Net cash outflow of the Group	733

The goodwill is attributable to the profitability of the acquired business and synergies expected to arise after the Group's acquisition of the subsidiaries.

8 Investments in Associates

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Shares, at cost	194	–	194	–
Share of post-acquisition reserve	(55)	–	–	–
	139	–	194	–

8 Investments in Associates (Cont'd)

Name of company	Principal Activities	Country of Incorporation/ Place of operation	Group's Effective Interest	
			2006 %	2005 %
Held by the Company				
Koastal Eco Industries Co Ltd [a]	Pollution control and related projects	Vietnam	49	–
Ecotex Pte Ltd [b]	Dormant	Singapore	40	–

(a) Audited by BDO AFC, Vietnam, member firm of BDO International
(b) Audited by BDO Raffles, Singapore, member firm of BDO International

The summarised financial information of the associates is as follows:

	2006	2005
	$'000	$'000
Assets and liabilities		
Current assets	1,688	–
Non current assets	54	–
	1,742	–
Current liabilities	(1,535)	–
	(1,535)	–
Results		
Revenue	817	–
Net loss after taxation	(112)	–

9 Investment in Partnership

	The Group	
	2006	2005
	$'000	$'000
Investment in partnership	285	333
Add: share of profit /(loss) after tax	16	(17)
	301	316
Share of profit/(loss) before tax	19	(17)
Share of tax –Tax exempt	–	–
	19	(17)

The Group has an effective interest of 80% for the investment in Partnership namely, PRS Enterprises.

9 Investment in Partnership (Cont'd)

PRS Enterprises is principally engaged in the business of bio-medical and hazardous wastes treatment and disposal in Kalyan, India.

The financial statements of the PRS Enterprises as at 31 December 2006 are reviewed by Chaturvedi & Shah, India, member firm of Nexia International.

The summarised financial information of the partnership is as follows:

	2006	2005
	$'000	$'000
Assets and liabilities		
Current assets	91	62
Non current assets	320	282
	411	344
Current liabilities	(9)	(28)
Non current liabilities	(13)	–
	(22)	(28)
Results		
Revenue	226	132
Profit / (Loss) after taxation	25	(21)

10 Goodwill on Consolidation

	The Group	
	2006	2005
	$'000	$'000
Cost		
Opening balance	1,024	242
Goodwill arising on acquisition of shares in subsidiaries, net	2,226	772
Currency realignment	–	10
Closing balance	3,250	1,024

Impairment tests for goodwill

Goodwill is allocated to each of the Group's cash-generating units (CGUs) expected to benefit from synergies of the business combination.

10 Goodwill on Consolidation (Cont'd)

A summary of the goodwill allocation is analysed as follows:

	2006
	$'000
Cash Generating Units	
Good Quality Engineering Sdn Bhd	242
Airchem Holdings Sdn Bhd	782
EMS Offshore Pte Ltd	2,226
Total	3,250

The recoverable amounts of the above balances are determined based on value-in-use calculations. Cashflow projections used in these calculations were based on financial budgets approved by the management for 2007 and future projections based on expected growth rates of 5% to 20%, considering past performance and expected market conditions and a discount rate of 6%.

11 Other Investments

	The Group	
	2006	2005
	$'000	$'000
Quoted equity shares	–	1
Unquoted equity shares	4	–
Membership, at cost	8	13
Less: Accumulated amortisation	(2)	(3)
	6	10
Investment fund, at cost	43	450
Closing balance	53	461

The unquoted investment consists of membership for holiday accommodation package expiring in year 2035. The investment fund represents investment in unit trusts.

The fair values for other investments are as follows:

Quoted equity shares, at fair value	–	1
Investment fund, at fair value	52	454

The fair values are based on quoted market price.

12 Inventories

	The Group	
	2006	2005
	$'000	$'000
Pollution control equipment	45	66

The cost of inventories recognized as expense and included in "cost of sales" amounted to $21,000 (2005: Nil).

13 Contract Work-In-Progress

	The Group	
	2006	2005
	$'000	$'000
Contract work-in-progress comprises:		
Aggregate contract costs recognized and recognized profits (less recognized loss) to date	21,195	17,259
Less: Progress billings	(19,573)	(15,590)
	1,622	1,669
Analysed as:		
Due from customers on construction contracts	2,270	2,486
Due to customers on construction contracts	(648)	(817)
	1,622	1,669

14 Trade and Other Receivables

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Trade receivables	10,055	6,804	–	9
Other receivables	1,171	2,286	2	9
Amounts due from subsidiary companies (non-trade)	–	–	5,138	2,789
	11,226	9.090	5,140	2,807

14 Trade and Other Receivables (Cont'd)

(a) Trade receivables

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Third parties	10,730	7,342	–	–
Less: Allowance for doubtful receivables	(1,023)	(837)	–	–
	9,707	6,505	–	–
Related parties	348	299	–	9
	10,055	6,804	–	9

Included in trade receivables as at 31 December 2006 are retention monies held amounting to approximately $1,185,000 (2005: $782,000).

The carrying amounts of trade receivables approximate their fair values and are denominated in the following currencies:

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Singapore Dollar	2,815	251	–	–
China Renminbi	307	22	–	—
Malaysian Ringgit	5,958	6,223	–	–
United States Dollar	976	308	–	9
	10,055	6,804	–	9

(b) Other receivables

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Other receivables	416	201	2	9
Deposits	281	320	–	–
Prepayment	90	1,329	–	–
Tax recoverable	384	436	–	–
	1,171	2,286	2	9

14 Trade and Other Receivables (Cont'd)

(b) Other receivables (Cont'd)

The carrying amounts of other receivables approximate their fair values and are denominated in the following currencies:

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Singapore Dollar	289	9	2	9
Malaysian Ringgit	863	2,275	–	–
Indian Rupee	2	2	–	–
China Renmimbi	17	–	–	–
	1,171	2,286	2	9

(c) Amounts due from subsidiary companies

Amounts due from subsidiary companies are non-trade in nature, unsecured, interest free and repayable on demand. The carrying amounts of due from subsidiary companies approximate their fair values and are denominated in the following currencies:

	The Company	
	2006	2005
	$'000	$'000
Amount due from subsidiary companies		
Malaysian Ringgit	4,640	2,773
China Renmimbi	484	–
Indian Rupee	14	16
	5,138	2,789

15 Fixed Deposits

Fixed deposits of approximately $978,000 (2005: $953,000) are pledged as security for overdraft and bank guarantee purposes. Fixed deposits are held in trust by certain directors of the Company (Note 18).

The average interest rates during the financial year for deposits as at 31 December 2006 are 2.65% - 3.88% (2005: 3%) per annum.

The carrying amounts of fixed deposits approximate their fair value and are denominated in the following currencies:

		The Group	
		2006	2005
		$'000	$'000
Malaysian Ringgit	- Pledged (Note 16)	978	953
	- Not pledged	7	9
		985	962

16 Cash and Cash Equivalents

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Cash on hand and at banks	1,134	3,672	30	2,660
Fixed deposits	985	962	–	–
	2,119	4,634	30	2,660
Bank overdrafts (Note 19)	(957)	(899)	–	–
Fixed deposits pledged (Note 15)	(978)	(953)	–	–
	184	2,782	30	2,660

The carrying amounts of cash and cash equivalents approximate their fair value and are denominated in the following currencies:

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Cash on hand and at banks and fixed deposits				
Singapore Dollar	793	2,778	30	2,660
Malaysian Ringgit	1,249	1,818	–	–
Indian Rupee	50	33	–	–
China Renmimbi	27	5	–	–
	2,119	4,634	30	2,660
Bank overdrafts				
Singapore Dollar	–	(25)	–	–
Malaysian Ringgit	(957)	(874)	–	–
	(957)	(899)	–	–

17 Trade and Other Payables

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Trade payables	4,299	1,596	–	–
Other payables and accruals	1,748	639	223	235
Amounts due to related parties (non-trade)	44	69	–	–
Amounts due to subsidiary companies (non-trade)	–	–	1,153	637
	6,091	2,304	1,376	872

17 Trade and Other Payables (Cont'd)

(a) Trade payables

The carrying amounts of trade payables approximate their fair values and are denominated in the following currencies:

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Singapore Dollar	2,495	–	–	–
Malaysian Ringgit	1,804	1,596	–	–
	4,299	1,596	–	–

(b) Other payables and accruals

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Other payables and accruals	1,731	633	223	235
Deposits	17	–	–	–
Amount due to staff	–	6	–	–
	1,748	639	223	235

The carrying amounts of other payables and accruals approximate their fair values and are denominated in the following currencies:

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Singapore Dollar	1,073	247	223	235
Malaysian Ringgit	669	391	–	–
China Renmimbi	5	–	–	–
Indian Rupee	1	1	–	–
	1,748	639	223	235

(c) Amounts due to related parties

Amounts due to related parties relate to amount due to a director of a subsidiary company. The amount due is non-trade in nature, unsecured, interest-free and repayable on demand.

The carrying amounts of amount due to a related party approximate their fair value and are denominated in Malaysian Ringgit.

(d) Amounts due to subsidiary companies

Amounts due to subsidiary companies are non-trade in nature, unsecured, interest free and repayable on demand. The carrying amounts of due to subsidiary companies approximate their fair values and are denominated in Singapore Dollars.

18 Hire Purchase Creditors

The Group leases motor vehicles which are classified as finance leases and expire over various dates until 2012. The discount rates implicit in the leases range from 2.5% to 7.0% (2005: 3.5% to 7.8%) per annum. Future lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	The Group			
	2006		2005	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	$'000	$'000	$'000	$'000
Within one year	138	131	177	156
After one year but not more than five years	59	69	201	133
Later than five years	4	1	–	57
Total	201	201	378	346
Less: Amounts representing finance charges	(20)	–	(32)	–
	181	201	346	346
Due within twelve months	128		156	
Due after twelve months	53		190	

Hire purchase creditors are denominated in the following currencies:

	The Group	
	2006	2005
	$'000	$'000
Singapore Dollar	105	57
Malaysian Ringgit	76	289
	181	346

Current portion of hire purchase creditors approximate its fair value. The fair values of non-current portion of hire purchase creditors are determined from the discounted cash flows analysis, using a discounted rate based upon the borrowing rate from the financial institution at the balance sheet date.

	Effective interest	Carrying amount		Fair values	
		2006	2005	2006	2005
		$	$	$	$
Due after 12 months	7.9%	53	190	51	183

19 Borrowings

	The Group	
	2006	2005
	$'000	$'000
Short term borrowings:		
Current portion of term loan	1,506	1,232
Bank overdrafts (Note 16)	957	899
Bankers' acceptance	1,763	1,762
	4,226	3,893
Long term borrowings:		
Term loan	3,097	3,707

The effective interest rates during the financial year on term loan is 4.0% to 6.8% (2005: 4.5% to 5.8%) per annum.

The effective interest rates on the other bank borrowings ranges from 1.5% to 2% (2005: 1.5% to 2%) per annum over the bank's base lending rate with monthly rests.

The term loans are secured over certain property, plant and equipment of the Group amounting to approximately $2,404,000 (2005: $111,000) (Note 5) and corporate guarantee of the Company.

The bank overdrafts and bankers' acceptance are secured by the fixed deposits which are held in trust by certain directors of the Company (Note 15), joint and several guarantee of the directors and corporate guarantee of the Company.

The Group has not complied with various major financial covenants as stated in the term loan agreement with a financial institution. As at balance sheet date, no action has been taken by the financial institution. Attention is drawn to going concern basis of preparation of accounts in Note 2(a)(ii).

The borrowings are denominated in the following currencies:

	The Group	
	2006	2005
	$'000	$'000
Term loan		
Singapore Dollar	1,473	–
Malaysia Ringgit	414	–
United States Dollar	2,716	4,939
	4,603	4,939
Bankers' acceptance		
Malaysian Ringgit	1,763	1,762

Current portion of borrowings approximate its fair value. The fair values of non-current portion of borrowings are determined from the discounted cash flows analysis, using a discounted rate based upon the borrowing rate from the financial institution at the balance sheet date.

	Effective interest	Carrying amount		Fair values	
		2006	2005	2006	2005
		$	$	$	$
Due after 12 months	4.6%	3,097	3,707	2,646	3,546

20 Deferred Taxation

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the balance sheets as follows:

	The Group	
	2006	2005
	$'000	$'000
Deferred tax assets:		
Unutilised staff leave	–	4
Unutilised tax losses	1,136	1,136
	1,136	1,140
Deferred tax liabilities:		
Excess of net book value over tax written down value	483	111
Difference in taxable profit and accounting profit arising from profits for uncompleted projects which are not taxable	–	325
	483	436
Net deferred tax assets	653	704

The movement in deferred income tax account is as follows:

	The Group	
	2006	2005
	$'000	$'000
At 1 January	704	(202)
Recognised in income statement	5	897
Acquisition of subsidiaries	(23)	(2)
Exchange differences	(33)	11
At 31 December	653	704

21 Share Capital

	No. of shares		Amount	
	Authorised share capital	Issued share capital	Authorised share capital	Issued share capital
	'000	'000	$'000	$'000
2006				
At 1 January	625,000	108,963	50,000	8,717
Effect of companies (Amendment) Act, 2005	(625,000)	–	(50,000)	3,047
Share issue	–	22,813	–	1,597
At 31 December	–	131,776	–	13,361
2005				
At 1 January	625,000	100,905	50,000	8,072
Share issue	–	8,058	–	645
At 31 December	625,000	108,963	50,000	8,717

Under the Companies (Amendment) Act 2005 that came into effect on 30 January 2006, the concepts of par value and authorized share capital were abolished and the amount in the share premium account as at 30 January 2006 became part of the Company's share capital.

During the financial year ended 31 December 2006, the Company issued 22,812,500 new ordinary shares for a total consideration of $1,597,875. The newly shares rank pari passu in all respect with the previously issued shares.

22 Reserves

	The Group		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Share premium	–	3,047	–	3,047
Share option reserves	360	144	360	144
Revenue reserves	(7,077)	(2,569)	(1,677)	(870)
Capital reserve	1,597	–	1,597	–
Foreign currency translation reserve	(752)	(520)	–	–
	(5,872)	102	280	2,321

Share premium

As a result of the Companies (Amendment) Act 2005 which came into effect on 30 January 2006, the concepts of authorised share capital and par value have been abolished. The amount standing to the credit of the share premium account has been transferred to the Company's share capital account in the current financial year.

22 Reserves (Cont'd)

Share option reserves

The Eco Water Employee Share Option Scheme (the "Scheme") for directors and employees of the Group was approved by members of the Company at an Extraordinary General Meeting on 12 May 2003.

Other information regarding the Scheme is set out below:

(a) The exercise price of the options can be set at a discount to the market price not exceeding 20% of the market price in respect of options granted at the time of grant.

(b) The options may be exercised 1 year after the grant for market price options and 2 years for discounted options. Further vesting period for the exercise of the options may be set.

(c) All options are settled by physical delivery of shares.

Movements in the number of share options and their related weighted average exercise prices are as follows:

	Exercise price 2006	No of options 2006	Exercise price 2005	No of options 2005
	$	'000	$	'000
As at 1 January	0.204	1,798	0.204	2,071
Granted	–	–	–	–
Forfeited	0.204	(410)	0.204	(273)
At 31 December	0.204	1,388	0.204	1,798
Exercisable at 31 December		1,388		1,798

No options were exercised in year 2006.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Date of grant of options	Expiry date	Exercise price	Options outstanding 2006	Options outstanding 2005
		$	'000	'000
28 June 2004	28 June 2015	0.204	1,388	1,798

22 Reserves (Cont'd)

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on fair value at the measurement date.

Date of grant of options	28 June 2004
Fair value of share options and assumptions	per share
Fair value at measurement date	
Share price	$0.21
Exercise price	$0.204

23 Revenue

	The Group	
	2006	2005
	$'000	$'000
Services rendered	14,482	10,496
Sales of goods	1,703	1,333
	16,185	11,829

24 Other Income

	The Group	
	2006	2005
	$'000	$'000
Interest income	24	109
Foreign exchange gain	–	33
GST refund	–	38
Gain on disposal of other investment	–	1
Other income	98	20
	122	201

25 Finance Costs

	The Group	
	2006	2005
	$'000	$'000
Interest expense on bank borrowings	441	424
Hire purchase interest	30	24
	471	448

26 Loss before Taxation

	Note	The Group 2006	2005
		$'000	$'000
The loss before taxation is determined:			
After charging:			
Amortisation of investments		–	1
Depreciation of property, plant and equipment	5	291	364
Directors' Remuneration			
Directors' of the Company		228	196
Directors' of subsidiaries		299	216
Foreign exchange loss		(102)	–
Property, plant and equipment			
- Loss on disposal		(6)	23
- Written off		32	15
Finance costs			
- Bank borrowings		441	424
- Hire purchase		30	24
Allowance for doubtful receivables		331	1,022
Non-audit fee to external auditors		20	23
Staff costs:			
Salaries, bonus and allowance		792	761
Pension contributions		103	117
Other related costs		30	102
Write off investment in hydro power station development project in Yunhan		2,162	–
Purchase of raw materials and finished goods		964	795
Changes in inventories and work-in-progress contract costs recognised		13,558	12,231
After crediting:			
Bad debts recovered		145	676
Foreign exchange gain		–	33
Interest income		24	109
Gain on disposal of other investments		–	1

27 Income Tax Expense

	The Group	
	2006	2005
	$'000	$'000
Income tax:		
Current year	36	136
Prior year under provision	44	(244)
	80	(108)
Deferred tax	5	(897)
	85	(1,005)
Reconciliation of effective tax rate:		
Loss before taxation	(4,254)	(4,865)
Income tax using standard corporate tax rate of 20%	(851)	(973)
Expenses not deductible	1,096	434
Different in tax rate of overseas subsidiary companies	(139)	(116)
Unutilised tax loss	–	(101)
Tax exemption income and rebates	(22)	(24)
Prior year under provision	44	(244)
Others	(43)	19
	85	(1,005)

28 Loss Per Share

Loss per share is calculated by dividing the Group's results (loss after taxation attributable to shareholders) for the financial year by the weighted average number of ordinary shares in issue during the year as follows:

	The Group	
	2006	2005
	$'000	$'000
Loss for the year	(4,508)	(3,889)
Weighted average number of ordinary shares in issue	110,275,502	104,933,878
Basic loss per share (cents)	(4.09)	(3.71)
Diluted loss per share (cents)	(4.09)	(3.71)

The shares options are anti-dilutive as the exercise price per share is higher than the current market value. As the number of share options is immaterial, the basic and diluted loss per share are the same.

29 Commitments

	The Group	
	2006	2005
	$'000	$'000
(a) Operating lease commitments		
Not later than one year	46	17
Between two to five years	184	20
More than five years	690	–
	920	37

	The Group	
	2006	2005
	$'000	$'000
(b) Capital commitments		
Capital expenditure contracted but not provided for:		
Purchase of property, plant and equipment	–	134
Construction related expenditure on hydropower project in Yunnan Asia	5,044	5,767
	5,044	5,901

In 2004, a subsidiary company, Tropical Interest Sdn. Bhd. ("TISB"), incorporated wholly-owned subsidiary, Yunnan Asia Eco Hydro Power Development Co., Ltd ("Yunnan Asia"), in Yunnan, People's Republic of China ("PRC") for the purpose of undertaking hydroelectric projects of the Group in the PRC, with a registered capital of US$3.2 million. As allowed by "Regulation of Implementation of the People's Republic of China Foreign Capital Enterprise Law" and other relevant Chinese Law, the Company is granted 60 days and 1 year period from the date of issuance of business license of Yunnan Asia to contribute investment fund of USD$1,199,990 and USD$2,000,010 respectively. As at the balance sheet date, the Group has contributed investment fund of USD$1,199,990 on 12 January 2005. The Group is in the process of applying for extension on period granted to contribute the investment fund of USD$2,000,010. The business continuity of Yunnan Asia is depends of the outcome of the approval of the local authority and the support of the financial institution.

30 Related Party Transactions

Some of the directors have interest in the related parties. Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

There were the following related party transactions which took place during the financial year on terms agreed between the parties:

	The Group	
	2006	2005
	$'000	$'000
Sales to related parties (a)	2,794	1,399
Directors' fee (b)	96	120
Directors' remuneration (b)	228	196

30 Related Party Transactions (Cont'd)

(a) The Group provides industrial waste water treatment systems, specialty chemical products and after market maintenance services to Ramatex Textiles Namibia (Pty) Ltd, Ramatex Printing Garment (Suzhou) Ltd and Ramatex Textiles Industrial Sdn Bhd which the Company's substantial shareholder Gimmill Industrial (Pte) Ltd has equity interest in their holding company Ramatex Berhad.

(b) Individuals that considered directly or indirectly possesses the ability to control or exercise significant influence over the operating and financial decision of the Group.

31 Financial Instruments and Risk Management

Financial risk factors

The Group's activities expose to a variety of financial risks: price risk (including currency risk, fair value interest rate risk and market risk), liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Price Risk

Foreign exchange risk

The Group operates mainly in Asia and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Malaysian Ringgit and United States Dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, and net investments in foreign operations.

Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's measurement currency. The Group relies on natural hedging as a risk management tool and does not enter into derivative foreign exchange contracts to hedge its foreign currency risk.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure to the net assets of the Group's foreign operations in Malaysia, People's Republic of China and India is managed primarily through borrowings denominated in the relevant foreign currencies.

(ii) Cash flow and fair value interest rate risks

Cash flow interest rate risk in the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest risk mainly arises from hire purchase liabilities and bank borrowings. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk.

The Group's exposure to changes in interest rates relates primarily to interest-earning financial assets and interest-bearing liabilities. Interest rate risk is managed by the Group on an on-going basis with the primary objective of limiting the extent to which net interest expense could be affected by an adverse movement in interest rates.

(iii) Credit risk

Credit risk is the potential financial loss resulting from the future of a customer or a counterparty to settle its financial and contractual obligations to the Group, as and when they fall due.

31 Financial Instruments and Risk Management (Cont'd)

(iii) Credit risk (Cont'd)

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Trade receivables are monitored on an on going basis through Group's management reporting procedures.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. The Group strives to maintain available banking facilities of a reasonable level to its overall debts position. As disclosed in Note 2(a)(ii) and Note 19, the Group is facing liquidity risk which requires proper management attention.

32 Significant Events

The Group has not complied with various major financial covenants as stated in the term loan agreement with a financial institution. As at balance sheet date, no action has been taken by the financial institution. Attention is drawn on going concern basis of preparation of financial statement in Note 2(a)(ii) to the financial statements.

33 Segment Reporting

The Group's primary format for reporting segment information is business segment, with each segment representing a strategic business segment that offers different products and services.

(i) Integrated Industrial Wastewater Treatment Systems ("IWTS")

This relates to the design, assembly, installation and commissioning of Industrial Wastewater Treatment Systems and sales of chemicals for industrial application.

(ii) Sewage Treatment Systems ("STS")

This relates to the design, assembly, installation and commissioning of Sewage Treatment Systems for residential and commercial sectors.

(iii) Fabricating of Engineering Equipment and Services ("FEES")

This relates to fabrication of engineering equipment and services.

Common costs between IWTS, STS and FEES segments are allocated primarily based on segment revenue.

Segment assets/liabilities do not include assets/liabilities that are generally shared and not identifiable by segment.

Capital expenditure has not been allocated to the segments as property, plant and equipment are generally shared and therefore not identifiable by business segment.

For geographical segments, revenue is based on the location of customers. Assets and capital expenditure are based on the location of those assets.

Notes to the Financial Statements

for the financial year ended 31 December 2006

33 Segment Reporting (cont'd)

	IWTS		STS		FEES		Others		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
(a) By Business Segments	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Segment revenue:										
Sales to external customers	6,731	1,686	8,549	10,143	905	–	–	–	16,185	11,829
Segment result	160	185	(1,979)	(4,775)	112	–	–	(11)	(1,707)	(4,601)
Other Income									122	201
Write off of investment									(2,162)	–
Loss before operations									(3,747)	(4,400)
Finance costs									(471)	(448)
Share of results of associates									(55)	–
Share of results of partnership									19	(17)
Loss before taxation									(4,254)	(4,865)
Income tax expenses									(85)	1,005
Loss after taxation									(4,339)	(3,860)
Equity holders of the parent									(4,508)	(3,889)
Minority interest									169	29
Loss after taxation and after minority interest									(4,339)	(3,860)
Segment assets	1,343	1,471	7,651	8,940	2,984	–	–	–	11,978	10,411
Unallocated corporate assets									11,074	9,964
Consolidated total assets									23,399	20,375
Segment liabilities	695	332	2,451	2,469	2,164	–	–	–	5,311	2,801
Unallocated corporate liabilities									9,305	8,420
Consolidated total liabilities									14,616	11,221
Other segment information:										
Unallocated capital expenditure									55	569
Depreciation and impairment	122	36	153	328	16	–	–	–	291	364

33 Segment Reporting (cont'd)

	Singapore		Malaysia		Other countries		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
(b) By geographical segments	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Segment revenue:								
Sales to external customers	3,791	–	10,373	11,589	2,021	240	16,185	11,829
Other geographical information:								
Segment assets	7,450	4,314	14,342	15,007	954	350	22,746	19,671
Capital expenditure (Property, plant and equipment addition)	3	1	42	568	10	–	55	569

34 Events Occurring After Balance Sheet Date

On 7 March 2007, the Company entered into a Sale & Purchase Agreement with Mr Tay Heng Guan Christopher ("Vendor"), to acquire 17.5% interest in the capital of Engineering & Marine Services (Pte.) Ltd in consideration of the Company issuing and allotting 10,546,596 new shares to the Vendor. The proposed transaction is subject to fulfillment of certain conditions precedents which are disclosed in the Company's announcement dated 7 March 2007.

On 23 March 2007, the Company issued Tranche 2 consideration comprising 22,812,500 new shares in the capital of the Company ("Consideration Shares") to Koastal Industries Pte Ltd, in accordance with the Sale & Purchase agreement dated 16 June 2006 for the acquisition of 70% interest in the capital of EMS Offshore Ltd and upon fulfillment of Profit Warranty. The Consideration Shares represent approximately 14.76% of the enlarged share capital of 154,588,002 ordinary shares in the capital of the Company.

35 New FRS and Interpretations

Certain new FRS, amendments and new interpretations to existing FRS have been published, but they are only mandatory for the Group's accounting period beginning on and after 1 January 2007 or such later periods that the Group decides to adopt. The Group has not adopted the following FRS:-

FRS 40	Investment Property
FRS 107	Financial Instruments: Disclosures, and a Complementary Amendment to FRS 1 Presentation of Financial Statements – Capital Disclosures
INT FRS 107	Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economics
INT FRS 108	Scope of FRS 102 Share Based Payment
INT FRS 109	Reassessment of Embedded Derivatives
INT FRS 110	Interim Financial Reporting and Impairment

36 Authorisation of Financial Statements

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of the Company on 4 April 2007.

Analysis of Shareholdings

As at 23 March 2007

AUTHORISED SHARE CAPITAL	:	$50,000,000.00
ISSUE AND FULLY PAID-UP CAPITAL	:	$14,957,505
CLASS OF SHARES	:	ORDINARY SHARES WITH EQUAL VOTING RIGHTS
VOTING RIGHTS	:	1 VOTE PER SHARE

SIZE OF HOLDINGS	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES	%
1 to 999	0	0.00	0	0.00
1,000 to 10,000	641	49.92	3,873,000	2.51
10,001 to 1,000,000	631	49.14	36,067,252	23.33
1,000,001 AND ABOVE	12	0.94	114,647,750	74.16
TOTAL	1,284	100.00	154,588,002	100.00

Top Twenty Shareholders as at 23 March 2007

NO.	NAME OF SHAREHOLDERS	NUMBER OF SHARES	%
1	KOASTAL INDUSTRIES PTE LTD	45,625,000	29.51
2	TAN JOO CHAI	23,816,662	15.41
3	GIMMILL INDUSTRIAL PTE LTD	21,271,425	13.76
4	HENG PENG SIANG	6,979,663	4.52
5	MORPH INVESTMENTS LTD	5,684,000	3.68
6	LIM BEAK LEANG	2,450,000	1.59
7	KIM ENG SECURITIES PTE LTD	2,198,000	1.42
8	OCBC SECURITIES PRIVATE LTD	1,592,000	1.03
9	TJIONG BOEN NGIAP @ BUSHAR TOMI	1,510,000	0.98
10	UNITED OVERSEAS BANK NOMINEES PTE LTD	1,283,000	0.83
11	DBS NOMINEES PTE LTD	1,188,000	0.77
12	DMG & PARTNERS SECURITIES PTE LTD	1,050,000	0.68
13	HENRY QUEK PENG HOCK	1,000,000	0.65
14	OCBC NOMINEES SINGAPORE PTE LTD	811,000	0.52
15	TAY SWEE LYE RONNIE	623,000	0.40
16	HONG LEONG FINANCE NOMINEES PTE LTD	588,000	0.38
17	HSBC (SINGAPORE) NOMINEES PTE LTD	517,000	0.33
18	NG MAY CHOO	500,000	0.32
19	YEO CHEE HIAN	473,000	0.31
20	PHILLIP SECURITIES PTE LTD	470,000	0.30
	TOTAL	119,629,750	77.39

Analysis of Shareholdings

As at 23 March 2007

Shareholdings Held in Hands of Public

As at 23 March 2007, the percentage of shareholdings held in the hands of the public was approximately 41.2% and Rule 723 of the Listing manual is complied with.

Directors and Substantial Shareholders

As at 23 March 2007

Name of shareholders	No. of shares held registered in the names of our directors and substantial shareholders	No. of shares in which our directors and substantial shareholders are deemed to have an interest
Mr Ting Teck Jin [1]	–	45,625,000
Dr. Tan Joo Chai [2]	23,816,662	1,000
Gimmill Industrial (Pte) Ltd	21,271,425	–
Tan Soo Kiat	50,000	–
Ravishankar Chandrasekhara Vaidya	50,000	–

Note

(1) These shares are held in the name of Koastal Industries Pte Ltd in which Mr Ting Teck Jin is a controlling shareholder and a director.

(2) The deemed interest of 1000 shares are held in the name of Ms Low Bee Leng, spouse of Dr Tan Joo Chai.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of ECO WATER LIMITED (the "Company") will be held at Copthorne Orchid Hotel, Mokara Room, Level 1, 214, Dunearn Road, Singapore 299526 on Saturday, 28 April 2007 at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and, if approved, to adopt the Audited Financial Statements for the financial year ended 31 December 2006 together with the Directors' Report and Auditors' Report thereon. **(Resolution 1)**

2. To approve Non-Executive Directors' fees of S$65,000 for the financial year ended 31 December 2006. **(Resolution 2)**

3. To approve Non-Executive Directors' fees of S$97,000 for the financial year ending 31 December 2007 to be paid quarterly in arrears. **(Resolution 3)**

4. To re-elect Mr Tan Soo Kiat as a Director under Article 107. **(Resolution 4)**

5. To re-elect Ms Lim May Lan as a Director under Article 117. **(Resolution 5)**

6. To re-elect Mr Terrance Tan Kong Hwa as a Director under Article 117. **(Resolution 6)**

7. To re-elect Mr Ting Teck Jin as a Director under Article 117. **(Resolution 7)**

8. To re-appoint Messrs Nexia Tan & Sitoh, Certified Public Accountants as auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 8)**

9. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions (with or without amendments), as Ordinary Resolutions, with or without any modifications:

10. THAT the Directors be authorised to offer and grant options under the Eco Water Share Option Scheme (the "Scheme") and to allot and issue from time to time such number of shares in the Company as may be required to be issued pursuant to the exercise of options under the Scheme, provided always that the aggregate number of shares to be issued pursuant to the Scheme shall not exceed 10 per cent (10%) of the total issued share capital of the Company from time to time. **(Resolution 9)**

11. THAT:-

    (a) approval be and hereby given for the renewal of shareholders' mandate for the purposes of Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited, for the Company, its subsidiaries and target associated companies or any of them to enter into any transactions with Ramatex Group, and that such approval shall, unless revoked or varied by the Company in general meeting, continue in force until the next Annual General Meeting of the Company;

    (b) the Directors be and hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary or in the interests of the Company to give effect to this Resolution. **(Resolution 10)**

Notice of Annual General Meeting

12. THAT pursuant to Section 161 of the Companies Act, Cap. 50 (the "Act") and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors be empowered to allot and issue shares and convertible securities in the capital of the Company at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit PROVIDED ALWAYS THAT the aggregate number of shares and convertible securities to be issued pursuant to this resolution shall not exceed fifty per cent (50%) of the issued share capital of the Company, of which the aggregate number of shares and convertible securities to be issued other than on a pro rata basis to existing shareholders shall not exceed twenty per cent (20%) of the issued share capital of the Company and that such authority shall continue in full force until the conclusion of the next Annual General Meeting or the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier, unless the authority is previously revoked or varied at a general meeting. For the purposes of this resolution, the percentage of issued share capital shall be based on the Company's issued share capital at the time of the passing of this resolution after adjusting for:-

    (a) new shares arising from the conversion or exercise of convertible securities or from exercising employee share options outstanding or subsisting at the time of the passing of this resolution; and

    (b) any subsequent consolidation or subdivision of shares. **(Resolution 11)**

BY ORDER OF THE BOARD

GWENDOLYN GN JONG YUH
COMPANY SECRETARY

Date: 13 April 2007
SINGAPORE

Notes:

(i) A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote in his stead. A member of the Company, which is a corporation, is entitled to appoint its authorised representative or proxy to vote on its behalf.

A proxy need not be a Member of the Company.

The instrument appointing a proxy must be deposited at the registered office at 1 Robinson Road, #17-00 AIA Tower, Singapore 048542 at least 48 before the time of the Meeting.

(ii) Resolution 9 above, if passed, will empower the Directors to issue shares pursuant to the Eco Water Share Option Scheme (the "Scheme"), which was approved at the last Annual General Meeting of the Company held on 26 April 2006 of up to an amount not exceeding in total of ten per cent (10%) of the issued share capital of the Company for the time being pursuant to the exercise of the options under the Scheme. This authority will, unless revoked or varied at a general meeting, expire at the next Annual General Meeting.

(iii) Resolution 10 above, if passed, will renew the Mandate given by the shareholders at the last Annual General Meeting of the Company held on 26 April 2006. The mandate is to allow the Company, its subsidiaries and target associated companies or any of them to enter into certain interested party transactions with certain classes of Interested Persons, the details of which are set out in the Company's Prospectus dated 20 June 2003. The mandate shall, unless revoked or varied at a general meeting, continue in force until the next Annual General Meeting of the Company.

(iv) Resolution 11 above, if passed, will empower the Directors of the Company to issue shares and convertible securities in the Company up to a maximum of fifty per cent (50%) of the issued share capital of the Company (of which the aggregate number of shares and convertible securities to be issued other than on a pro rata basis to existing shareholders shall not exceed twenty per cent (20%) of the issued share capital of the Company) for such purposes as they consider would be in the interests of the Company. This authority will continue in force until the next Annual General Meeting of the Company or the expiration of the period within which the next Annual General Meeting is required by law to be held, whichever is the earlier, unless the authority is previously revoked or varied at a general meeting.

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ECO WATER LIMITED

Company No. 200300485D
(Incorporated in The Republic of Singapore)

IMPORTANT:

1. For investors who have used their CPF monies to buy the Company's ordinary shares, this Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This proxy form is not valid for use by CPF Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF Investors who wish to attend the Annual General Meeting as OBSERVERS have to submit their requests through their respective Agent banks so that their Agent Banks may register with the Company Secretary of Eco Water Limited.

PROXY FORM

I/We,..... with NRIC/Passport Number: .....

of ..... (address)

being a member/members of ECO WATER LIMITED (the "Company"), hereby appoint:

Name	Address	NRIC/ Passport No.	Proportion of Shareholdings (%)
and/or (delete as appropriate)			

as my/our proxy/proxies to attend and to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at Copthorne Orchid Hotel, Mokara Room, Level 1, 214, Dunearn Road, Singapore 299526 on Saturday, 28 April 2007 at 10.00 a.m. and at any adjournment thereof. I/We direct my/our proxy to vote for or against the Resolutions to be proposed at the Meeting as hereunder indicated.

No.	Ordinary Resolutions:	For	Against
	Ordinary Business		
1.	To adopt the Audited Financial Statements, Directors' Report and Auditors' Report.		
2.	To approve the payment of Non-Executive Directors' Fees of S$65,000 for the financial year ended 31 December 2006.		
3.	To approve Non-Executive Directors' fees of S$97,000 for the financial year ending 31 December 2007 to be paid quarterly in arrears.		
4.	To re-elect Mr Tan Soo Kiat as a Director under Article 107.		
5.	To re-elect Ms Lim May Lan as a Director under Article 117.		
6.	To re-elect Mr Terrance Tan Kong Hwa as a Director under Article 117.		
7.	To re-elect Mr Ting Teck Jin as a Director under Article 117.		
8.	To re-appoint Messrs Nexia Tan & Sitoh as Auditors and authorise the Directors to fix their remuneration.		
	Special Business		
9.	To authorise Directors to allot and issue shares in connection with the exercise of options granted pursuant to Eco Water Share Option Scheme.		
10.	To authorize the Company, its subsidiaries and target associated companies to enter into interested party transactions with Ramatex Group.		
11.	To authorise Directors to allot and issue shares pursuant to Section 161 of the Companies Act, Cap. 50.		

Dated this ..... day of 2007

No. of Ordinary Shares Held

.....
Signature(s) of Members(s)/Common Seal

IMPORTANT: PLEASE READ NOTES ON PAGE OVERLEAF

Notes:

1. A member should insert the total number of shares held by him. If the member has shares entered against his name in the Depository Register (as defined in Section 130A) of the Companies Act, Chapter 50 of Singapore), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert that number of shares. If the member has shares entered against his name in Depository Register and shares registered in his name in the Register of Members, he should insert the aggregate number of shares. If no number is inserted, the instrument appointing a proxy or proxies will be deemed to relate to all the shares held by the member.

2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote instead of him.

3. Where a member appoints two proxies, the appointments shall be invalid unless he specifies the proportion of his shareholding (expressed as percentage of the whole) to be represented by each proxy.

4. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 1 Robinson Road, #17-00 AIA Tower, Singapore 048542 not less than 48 hours before the time appointed for the Annual General Meeting.

5. The instrument appointing a proxy or proxies must be under the hand of the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised.

6. Where an instrument appointing a proxy is signed on behalf of the appointor by the attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.

7. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Annual General Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Annual General Meeting, as certified by The Central Depository (Pte) Limited to the Company.

Eco Water Limited

(Co. Reg. No. 200300485D)

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