

Darco Water Technologies Limited
(Incorporated in Singapore)
(Company registration no: 200106732C)

Unaudited Financial Statements For the Half Year Ended 30 June 2020

PART I - INFORMATION REQUIRED FOR QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR ANNOUNCEMENTS

1(a)(i) An income statement and statement of comprehensive income, or a statement of comprehensive income, for the group together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group		
	Half Year Ended		
	Unaudited	Unaudited	
	30/6/2020	30/6/2019	Change
	(\$'000)	(\$'000)	%
Revenue	27,132	30,341	-10.6
Cost of sales	(23,447)	(25,028)	-6.3
Gross profit	3,685	5,313	-30.6
Other income	671	216	210.6
Marketing and distribution expenses	(588)	(864)	-31.9
Administrative expenses	(5,518)	(4,662)	18.4
Finance expenses	(107)	(284)	-62.3
Loss before income tax	(1,857)	(281)	560.9
Income tax expense	(179)	(16)	-1,018.8
Loss for the period	(2,036)	(297)	585.5
(Loss)/Profit attributable to:			
Equity holders of the Company	(1,704)	(321)	430.8
Non-controlling interests	(332)	24	-1,483.3
Loss for the period	(2,036)	(297)	

Note:

n.m- not meaningful

1(a)(ii) CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR HALF YEAR ENDED 30 JUNE 2018.

	Group Half Year Ended		
	Unaudited 30/6/2020 (\$'000)	Unaudited 30/6/2019 (\$'000)	change %
Loss for the period	(2,036)	(297)	585.5
Other comprehensive profit/(loss): <i>Items that may be reclassified subsequently to profit and loss:</i>			
Currency translation differences arising from consolidation	108	(134)	-180.6
Other comprehensive profit/(loss) for the period	108	(134)	-180.6
Total comprehensive loss for the period	(1,928)	(431)	347.3
(Loss)/Profit attributable to:			
Equity holders of the Company	(1,704)	(321)	430.8
Non-controlling interests	(332)	24	-1,483.3
Loss for the period	(2,036)	(297)	585.5
Total comprehensive (loss)/profit attributable to:			
Equity holders of the Company	(1,598)	(455)	251.2
Non-controlling interests	(330)	24	-1,475.0
Total comprehensive loss for the period	(1,928)	(431)	347.3

Note:

n.m- not meaningful

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1(a)(iii) Profit before income tax is arrived after (charging)/crediting the followings:

Included in other income are:	Group Half Year Ended Unaudited		change %
	30/6/2020 (\$'000)	30/6/2019 (\$'000)	
Interest income	42	67	-37.3
Government grant	540	76	610.5
Gain on disposal of property, plant and Equipment	16	8	100.0
Gain on foreign exchange	72	44	63.6
Miscellaneous income	1	21	-95.2
	<u>671</u>	<u>216</u>	210.6

Finance expenses:	Group Half Year Ended Unaudited		Change %
	30/6/2020 (\$'000)	30/6/2019 (\$'000)	
Interest expense on:-			
Borrowings	(104)	(273)	-61.9
Finance lease	(2)	(11)	-81.8
Interest payable on right-of-use assets	(2)	-	n.m
	<u>(108)</u>	<u>(284)</u>	-62.0

Included in the profit before income tax are:	Group Half Year Ended Unaudited		change %
	30/6/2020 (\$'000)	30/6/2019 (\$'000)	
Employee compensation	(5,377)	(4,965)	8.3
Amortisation of intangible assets	(150)	(151)	-0.7
Depreciation of property, plant and equipment	(320)	(261)	22.6
Depreciation of right-of-use assets	(157)	-	n.m
Legal and professional fees	(529)	(99)	432.9
Property, plant and equipment written off	(1)	-	n/m
Gain on disposal of property, plant and equipment	16	8	100.0
Research and development expenditure	(1,139)	(645)	76.6

Note:

n.m- not meaningful

1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial years.

	Group		Company	
	Unaudited 30/6/2020 \$'000	Audited 31/12/2019 \$'000	Unaudited 30/6/2020 \$'000	Audited 31/12/2019 \$'000
ASSETS				
Non-current assets				
Property, plant equipment	7,484	7,630	-	-
Right-of-use assets	673	715	-	-
Intangible assets	3,447	3,593	-	-
Investment in subsidiaries	-	-	19,739	19,739
Deferred tax assets	602	653	-	-
Total non-current assets	12,206	12,591	19,739	19,739
Current assets				
Inventories	6,627	6,186	-	-
Trade and other receivables	50,447	62,507	14,904	15,487
Income tax recoverable	189	143	-	-
Cash and cash equivalents	17,890	27,420	2,363	6,341
Total current assets	75,173	96,256	17,267	21,828
Total assets	87,359	108,847	37,006	41,567
LIABILITIES				
Current liabilities				
Trade and other payables	40,020	52,592	1,170	1,411
Borrowings	3,185	10,940	1,384	5,349
Lease liabilities	299	323	-	-
Derivative financial instrument	3	3	-	-
Income tax payable	205	264	-	-
Total current liabilities	43,712	64,122	2,554	6,760
Non-current liabilities				
Borrowings	2,173	1,310	-	-
Lease liabilities	229	242	-	-
Deferred tax liabilities	28	28	-	-
Total non-current liabilities	2,430	1,580	-	-
Total liabilities	46,142	65,702	2,554	6,760
Net assets	41,217	43,145	34,452	34,807
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	76,766	76,766	76,766	76,766
Other reserves	(3,289)	(3,395)	-	-
Accumulated losses	(35,191)	(33,487)	(42,314)	(41,959)
	38,286	39,884	34,452	34,807
Non-controlling interests	2,931	3,261	-	-
Total equity	41,217	43,145	34,452	34,807

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

Amount repayable in one year or less, or on demand

As at 30 June 2020		As at 31 Dec 2019	
Secured \$'000	Unsecured \$'000	Secured \$'000	Unsecured \$'000
1,453	1,732	5,039	5,901

Amount repayable after one year

As at 30 June 2020		As at 31 Dec 2019	
Secured \$'000	Unsecured \$'000	Secured \$'000	Unsecured \$'000
2,173	-	1,310	-

Details of any collateral

As at 30 June 2020 and 31 December 2019, all borrowings are secured by corporate guarantees and freehold land and properties of subsidiaries.

1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group	
	Half Year Ended	
	Unaudited	Unaudited
	30/6/2020	30/6/2019
	(\$'000)	(\$'000)
Loss before income tax	(1,857)	(281)
Adjustments for:-		
Amortisation of intangible assets	150	151
Depreciation of property, plant and equipment	320	317
Depreciation of right-of-use assets	157	-
Property, plant and equipment written off	1	-
Gain on disposal of property, plant and equipment	(16)	(8)
Unrealised (gain)/loss in foreign exchange	(42)	(41)
Interest expense	106	284
Interest income	(42)	(67)
Operating cashflow before working capital	(1,223)	355
Changes in working capital		
Inventories	(441)	(550)
Construction work-in-progress	(5,823)	13,620
Trade and other receivables	9,614	(6,059)
Trade and other payables	(4,382)	(10,520)
Fixed deposits and bank balances pledged	379	826
Cash used in operations	(1,876)	(2,328)
Income tax paid	(284)	(411)
Net cash used in operating activities	(2,160)	(2,739)
Cash flows from investing activities		
Additions of property, plant and equipment	-	(1,248)
Interest received	42	67
Placement of fixed deposits with tenure more than 3 months	114	-
Proceeds from disposal of property, plant and equipment	16	8
Net cash from/(used in) investing activities	172	(1,173)
Cash flows from financing activities		
Proceeds from bank borrowing	998	933
Repayment of borrowings	(6,491)	(2,385)
Interest paid	(106)	(184)
Repayment of finance lease liabilities	(37)	(21)
Net cash used in financing activities	(5,636)	(1,657)
Net decrease in cash and cash equivalents	(7,624)	(5,569)
Cash and cash equivalents at beginning of the year	20,179	22,673
Effect of currency translation differences	168	(43)
Cash and cash equivalents at end of period	12,723	17,061

	Half Year Ended	
	Unaudited	Unaudited
	30/6/2020	30/6/2019
	\$'000	\$'000
Bank and cash balances	17,890	21,946
Bank balances pledged	(2,368)	(2,788)
Fixed deposits pledged	(2,236)	-
Bank overdraft	(563)	(2,097)
	12,723	17,061

1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year. (Cont'd)

Note A

For the purpose of the consolidated statement of cash flows, the Group's additions to property, plant and equipment during the financial period comprised of:

	Half Year Ended Unaudited 30/6/2019
	\$'000
Property, plant and equipment purchased	2,256
Less:	
Term Loan	(1,008)
	<u>1,248</u>

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Group	Attributable to equity holders of the Group				Non-controlling interests (\$'000)	Total Equity (\$'000)
	Share Capital (\$'000)	Accumulated losses (\$'000)	Other Reserves (\$'000)	Total (\$'000)		
Balance at 1 Jan 2020	76,766	(33,487)	(3,395)	39,884	3,261	43,145
Loss for the period	-	(1,704)	-	(1,704)	(332)	(2,036)
Other comprehensive Income, net of tax:						
- Currency translation difference	-	-	106	106	2	108
Total comprehensive (loss)/income for the period	-	(1,704)	106	(1,598)	(330)	(1,928)
Transfer to statutory reserve	-	-	-	-	-	-
Balance at 30 Jun 2020	<u>76,766</u>	<u>(35,191)</u>	<u>(3,289)</u>	<u>38,286</u>	<u>2,931</u>	<u>41,217</u>

Group	Attributable to equity holders of the Group				Non-controlling interests (\$'000)	Total Equity (\$'000)
	Share Capital (\$'000)	Accumulated losses (\$'000)	Other Reserves (\$'000)	Total (\$'000)		
Balance at 1 Jan 2019	76,766	(24,658)	(3,261)	48,847	5,305	54,152
(Loss)/profit for the period	-	(321)	-	(321)	24	(297)
Other comprehensive loss, net of tax:						
- Currency translation difference	-	-	(134)	(134)	-	(134)
Total comprehensive (loss)/income for the period	-	(321)	(134)	(455)	24	(431)
Transfer to statutory reserve	-	(9)	9	-	-	-
Balance at 30 Jun 2019	<u>76,766</u>	<u>(24,988)</u>	<u>(3,386)</u>	<u>48,392</u>	<u>5,329</u>	<u>53,721</u>

1(d)(i) A statement of Changes in equity of the Company

Company	Share Capital (\$'000)	Accumulated Losses (\$'000)	Total (\$'000)
Balance at 1 Jan 2020	76,766	(41,959)	34,807
Total comprehensive loss for the period	-	(355)	(355)
Balance at 30 Jun 2020	76,766	(42,314)	(34,452)

Company	Share Capital (\$'000)	Accumulated Losses (\$'000)	Total (\$'000)
Balance at 1 Jan 2019	76,766	(39,469)	37,297
Total comprehensive loss for the period	-	(446)	(446)
Balance at 30 Jun 2019	76,766	(39,915)	36,851

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State the number of shares that may be issued on conversion of all the outstanding convertibles if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

During the financial period, there is no changes in the Company's share capital.

The details of the Company's share capital are as follows:

	Company	
	As at 30/6/2020	As at 31/12/2019
Number of ordinary shares	93,831,492	93,831,492

	Company	
	As at 30/6/2020	As at 31/12/2019
	\$'000	\$'000
Share capital	76,766	76,766

There were no outstanding convertibles or shares held as treasury shares as at end of the current financial period reported on and as at the end of the corresponding year of the immediately preceding financial year.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

As at 30 June 2020 and 31 December 2019, the issued ordinary shares of the Company were 93,831,492 and 93,831,492 respectively. There were no treasury shares as at 30 June 2020 and 31 December 2019.

1(d)(iv) A statement showing all sales, transfers, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable. The Company does not have any treasury shares during and as at the end of the current financial period reported on.

1(d)(v) A statement showing all sales, transfers, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.

Not applicable. The Company does not have any subsidiary holdings during and as at the end of the current financial period reported on.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

These figures have not been reviewed nor audited by the Company's auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

Save as disclosed in paragraph 5 below, the Group has adopted the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting year as per the most recent audited financial statements for the financial year ended 31 December 2019.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

The Group has adopted the new and revised Singapore Financial Reporting Standards (International) ("SFRS(I)") and SFRS(I) Interpretations ("SFRS(I) INT") that are mandatory for financial years beginning on and after 1 Jan 2020, where applicable. The adoption of these standards did not result in substantial changes to the Group's accounting policies, and there is no material impact on the financial statements of the Group as at 1 Jan 2020.

6. **Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**
(a) Based on the weighted average number of ordinary shares on issue; and
(b) On a fully diluted basis (detailing any adjustments made to the earnings).

	Group	
	Half year ended	
	Unaudited	Unaudited
	30/6/2020	30/6/2019
Loss per ordinary shares of the group for the current period reported on and the corresponding period of the immediate preceding financial year:-	Cents	Cents
Basic and diluted loss per share	(1.82)	(0.34)
Weighted average number of ordinary shares Outstanding for basic and diluted loss per share	93,831,492	93,831,492

The basic and diluted earnings/loss per share were the same as there were no potentially dilutive ordinary shares in issue as at 30 June 2020 and 30 June 2019.

7. **Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:-**
(a) current financial period reported on; and
(b) immediately preceding financial year.

	Group		Company	
	Unaudited	Audited	Unaudited	Audited
	30/6/2020	31/12/2019	30/6/2020	31/12/2019
	Cents	Cents	Cents	Cents
Net asset value (for issuer and group) per ordinary share based on issued share capital of the issuer at the end of the financial period/ year.	43.93	45.98	36.72	39.75
Number of ordinary shares	93,831,492	93,831,492	93,831,492	93,831,492

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-

- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
- (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

Revenue and Gross Profit

	Group Half Year Ended		Change %
	Unaudited 30/6/2020 (\$'000)	Unaudited 30/6/2019 (\$'000)	
Engineered Environmental Systems ("EE Systems")	18,990	18,221	4.2
Water Management Services ("WM Services")	3,294	3,824	-13.9
Trading	4,848	8,296	-41.6
	<u>27,132</u>	<u>30,341</u>	-10.6

Revenue of the Group decreased from \$30.3 million in 1H2019 to \$27.1 million in 1H2020, due to lower contribution from the Group's delivery of projects in Malaysia and Singapore.

Revenue from the EE Systems segment has slightly increased from \$18.2 million in 1H2019 to \$19.0 million in 1H2020 mainly due to the higher contribution from the Engineering, procurement, and construction ("EPC") projects in China during the financial period. The EE Systems revenue from China has increased from \$8.7 million in 1H2019 to \$11.1 million in 1H2020. This has been partially offset by the decrease in the EE Systems revenue from Malaysia and Singapore from \$9.5 million in 1H2019 to \$7.9 million in 1H2020.

Revenue from the WM Services segment decreased from \$3.8 million in 1H2019 to \$3.3 million in 1H2020. This revenue arises mainly from the service and maintenance of water treatment plants in Malaysia.

Revenue from the Trading segment decreased from \$8.3 million in 1H2019 to \$4.8 million in 1H2020 mainly due to the lower contribution from the Malaysian and China subsidiaries.

Due to the recent Covid-19 pandemic situation, some of our customers has either shut down the plants or reduce the plants' capacity, resulting in the drop in the revenue from WM Services and Trading.

The Group's overall gross profit ("GP") margin has decreased from 17.5% in 1H2019 to 13.6% in 1H2020. The drop in GP margin is mainly due to the lower average margin contributed from China subsidiary. The average project margin in China for EPC project has been ranging from 10% to 13%. As China is one of our major market segments, the lower margin for China projects has significantly reduced the overall Group profit margin for the year.

Other Income

The Group's other income has increase from \$0.2 million in 1H2019 to \$0.7 million in 1H2020. This is mainly due to the increase in the government grant from \$0.1 million in 1H2019 to \$0.5 million in 1H2020. The Group has received a total government grant of \$0.3 million in 1H2020 in relation to the recent covid-19 pandemic.

Operating Expenses

The group's marketing and distribution expenses decreased from \$0.9 million in 1H2019 to \$0.7 million in 1H2020 mainly due to lower travelling and marketing cost incurred by the subsidiaries, in view of the recent travel restrictions imposed by the governments in the various countries the Group operated in.

Administrative expenses comprising mainly of admin staff salary, professional fees, rental, depreciation and other operating expenses, increased from \$4.7 million in 1H2019 to \$5.5 million in 1H2020. The increase is mainly due to:

1. legal and professional fees amounting to \$0.4 million has been recorded in the 1H2020, in regards to the recent corporate actions such as due diligence costs for the acquisition of Indonesia waste management project, placement exercise, and Mandatory General Offer.
2. research and development expenditure incurred in China, increased from \$0.6 million in 1H2019 to \$1.1 million in 1H2020.

Borrowing costs has been reduced from \$0.3 million in 1H2020 to \$0.1 million in 1H2019. This is because the Group has repaid back the \$4 million loan to Mr Wang Zhi in 1H2020. There is no interest incurred in 1H2020, as compare to \$0.1 million interest expenses in 1H2019 for the loan from Mr Wang Zhi. The decrease in utilisation of trade line facilities has also contributed to the drop in the borrowing costs of the Group.

Balance Sheet

Current Assets

The Group's trade and other receivables comprised of the following items:-

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
	\$'000	\$'000
Contract assets	13,377	16,321
Trade receivables	23,964	32,229
Other receivables, deposits and prepayments	13,106	13,957
Total	50,447	62,507

Contract assets decreased mainly due to the lower unbilled work done for China projects. The construction work in progress relating to these China projects has decreased from \$12.5 million as at 31 December 2019 to \$8.6 million as at 30 June 2020. The decrease in contract assets in China is due to lesser unbilled work as at 30 June 2020.

Trade receivables has decreased from \$32.2 million as at 31 December 2019 to \$24.0 million as at 30 June 2020, mainly due to the lower outstanding billing in Singapore, Malaysia and China subsidiaries.

Included in other receivables, deposits and prepayments are mainly advances to suppliers amounting to \$6.1 million as at 30 June 2020 (\$7.9 million as at 31 December 2019) and refundable deposits of \$5.0 million as at 30 June 2020 (\$4.1 million as at 31 December 2019).

Balance Sheet (cont'd)

As at 30 June 2020, refundable deposits are mainly consists of:-

1. an amount of RMB6.0 million, equivalent to approximately \$1.2 million being paid to a Director of the Company, Wang Zhi under a non-binding Letter of Intent dated 5 November 2018 in respect of a proposed investment in a Build-Operate-Transfer ("BOT") project in Hebei, China for a total consideration of RMB60.0 million, equivalent to approximately \$11.6 million, as announced by the Company on the same date;
2. an amount of US\$1.0 million equivalent to approximately \$1.4 million being paid as part-payment under a framework agreement entered into by the Group with a counterparty ("Vendor") with the intention to acquire 90% equity interest in a company in Vietnam ("intended acquisition") for a total of US\$3.0 million (equivalent to approximately \$4.1 million);
3. an amount of US\$0.6 million equivalent to approximately \$0.8 million being paid as part-payment under a Letter of Intent to a counterparty with the intention to purchase Con Dao Green Energy Co. Ltd., the Build-Own-Operate ("BOO") developer of Con Dao Solar Power Park in Vietnam (the "Farm") which will have a capacity of 5 megawatt peak (MWp) upon completion;
4. an amount of VND5.4 million equivalent to approximately \$0.3 million being paid as part payment under an asset purchase agreement with the intention to purchase Kim Lien Clean Water Plant in Kim Lien Commune, Nam Dan District, Nghe An Province; and
5. Project security deposits (项目保证金) of \$1.0 million for the EPC projects in China.

Non-current assets

Our non-current assets comprise of property, plant and equipment, right-of-use assets, intangible assets and deferred tax assets. The fluctuation in property, plant and equipment and right-of-use assets is mainly due to the depreciation of property, plant and equipment amounting to \$0.3 million and depreciation of right-of-use assets of \$0.2 million.

Our intangible assets include Goodwill on consolidation, license to use technology and computer software. The decrease in the intangible assets is mainly due to the amortisation of intangible assets amounting to \$0.2 million.

Included in goodwill on consolidation amounting to \$2.5 million which relate to the acquisition of PT Panghegar Energy Indonesia ("PEI") in Year 2019.

As previously announced on the 27 July 2020, the Company has exercised its right to require Emsus Co. Ltd. to re-purchase the Company's 75% shareholding interests in PT Panghegar Energy Indonesia ("PEI") pursuant to a reversal option that has been granted to the Company under the terms of the conditional sale and purchase agreement dated 4 November 2019. In response, Emsus Co. Ltd. has requested the Company for the deferment of the re-purchase of the aforesaid 75% shareholding interests in PEI as it seeks to make efforts for further negotiation with the West Java Provincial Government as well as to look for a new investor. The Board has directed the Management to monitor the completion of the re-purchase and payment of US\$1.3 million due from Emsus Co. Ltd. as a result of the exercise of the aforesaid reversal option.

The Company will make the necessary announcements as and when there are further developments to the above matter.

Balance Sheet (Cont'd)

Current Liabilities

The Group's trade and other payables comprised of the following:-

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
	\$'000	\$'000
Contract liabilities	18,997	27,378
Trade payables	16,584	18,754
Other payables and accruals	4,439	6,460
Total	40,020	52,592

Contract liabilities decreased mainly due to lesser advance billing for China projects. The construction work in progress relating to these China projects has decreased from \$24.5 million as at 31 December 2019 to \$15.5 million as at 30 June 2020.

The decrease in trade payables is mainly due to the reduction in outstanding trade payables in Singapore and Malaysia, from \$1.3 million and \$3.4 million as at 31 December 2019, to \$0.01 million and \$2.9 mil as at 30 June 2020, respectively.

The decrease in other payables and accruals is mainly due to the reduction in accrued operating expenses and interest payables, from \$3.0 million as at 31 December 2019 to \$1.0 million as at 30 June 2020.

Borrowings

The Group's borrowings reduced from \$12.3 million as at 31 December 2019 to \$5.4 million as at 30 June 2020.

This is mainly due to:-

1. repayment of loan to Mr Wang Zhi amounting to \$4 million;
2. reduction in the utilisation of bank overdraft, reduced from \$2.1 million as at 31 December 2019 to \$0.6 million as at 30 June 2020; and
3. reduction in the utilisation of Trust receipts, reduced from \$2.0 million as at 31 December 2019 to \$0.2 million as at 30 June 2020

Income tax payable

The reduction is mainly due to the repayment of tax amounting to \$0.3 million during the financial period. This has been partially offset by the increase in the provision of income tax amounting to \$0.2 million in 1H2020.

Equity

The equity of the Group has reduced from \$43.1 million as at 31 December 2019 to \$40.1 million as at 30 June 2020. This is due to the losses incurred by the Group in the 1H2020.

Cash flow statement

Cash flow statement for the period ended

	30 Jun 2020	30 Jun 2019
	\$'000	\$'000
Net cash used in operating activities	(2,160)	(2,739)
Cash flows from/(used in) investing activities	172	(1,173)
Cash flows used in financing activities	<u>(5,636)</u>	<u>(1,657)</u>
Net decrease in cash and cash equivalents	<u>(7,624)</u>	<u>(5,569)</u>

The Group's cash position was \$17.9 million as at 30 June 2020, compared to \$21.9 million as at 31 December 2019.

In 1H2020, the operating cash outflow before changes in working capital was \$2.4 million, after adding non-cash items of \$0.5 million. Net cash used in operating activities was \$1.9 million mainly due to cash outflow to fund the construction projects and repay the outstanding trade payables.

Cash generated from investing activities in 1H2020 was \$0.2 million mainly due to the withdrawal of fixed deposits and interest income received from banks.

Cash used in financing activities in 1H2020 of \$5.6 million is mainly due to the repayment of loan to Mr Wang Zhi in 1H2020 amounting to \$4.0 million and monthly loan repayment to the banks which was due in 1H2020.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

The business activities of the Group remain broad-based and the actual results are in line with the statements made in announcements released earlier.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

Various restrictive measures taken by the governments of those countries affected by the COVID-19, namely China, Malaysia and Singapore, have impacted the Group's business. The Group has, in 1H2020, experienced delays from its suppliers and also constraints in the work place and these factors have affected the Group's ability to deliver its current order book. Sales and marketing activities have also been put on hold due to traveling restrictions imposed by the Governments to curb the spread of COVID-19.

Hence, in the next 12 months, the Group expects its businesses in China, Malaysia and Singapore to continue to be challenging. With the recent easing on lockdowns/movement measures, our subsidiaries in China and Malaysia are working to complete delivery of EPC contracts secured before the Covid-19 outbreak occurred. The progress has been slow due to additional constraints and measures in the work place.

In the EPC business, there has been a sharp decline in industrial projects up for tender, and that would impact the orders that could be secured in Year 2020. The Group's business in China and Malaysia will likely be impacted due to diminishing order books in hand over the next 12 months.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months. (Cont'd)

In Singapore, the Group's subsidiary, PV Vacuum, is focused on delivering the existing HDB contracts in hand. However, its progress has been hampered by the spread of Covid-19 among construction workers in the dormitories. In addition, with the introduction of new safe distancing regulations within the construction industry post-Covid19 Circuit Breaker, construction costs have increased and construction progress has seen a significant slowdown. These circumstances will affect the subsidiary's revenue and its margin.

As for the Group's pending investment in Water Supply Project in Vietnam, namely in the province of Ben Tre, the Group anticipates a longer construction period and possibly higher construction costs due to more stringent measure put in place onsite to curb the spread of covid 19, and delays in the processing of necessary permits/ licenses by the Authorities.

Overall, the Group foresees the challenges posed over the next 12 months will be related to its the ability to executed its existing order book and securing more projects in Year 2020.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

Not applicable.

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

No

(c) Date payable

Not applicable

(d) Books closure date

Not applicable

12. If no dividend has been declared (recommended), a statement to that effect and the reason(s) for the decision.

No dividend has been declared/recommended for the current financial period in view that the Company was loss making.

13. Use of proceeds

Pursuant to the share placement to Sofos, RS and WZ, which was completed on 8 February 2018, 21 March 2018 and 23 March 2018 respectively, the Company received net proceeds from the issuance of new shares of approximately \$20,732,000, after deducting share issue expenses.

The utilisation of the share placement proceeds as at the date of this announcement is as follows:

	Engineering contracts and business expansion	Funding new projects, investments in environmental relation infrastructure projects and other investments	Working Capital	Total Funds received/ used
	\$'000	\$'000	\$'000	\$'000
Funds received				
Sofos Placement	-	1,470,000	630,000	2,100,000
RS Placement	-	630,000	270,000	900,000
WZ Placement	5,397,600	12,594,400	-	17,992,000
Share issue expenses	(59,100)	(181,900)	(19,000)	(260,000)
	5,338,500	14,512,500	881,000	20,732,000
Funds used				
Infrastructure projects	-	(6,780,709)	-	(6,780,709)
Engineering, Procurement and Construction ("EPC") business expansion in China and Malaysia	(1,503,784)	-	-	(1,503,784)
Business expansion and funding of new projects - Pneumatic Waste Conveyance System	(1,000,000)	(4,000,000)	-	(5,000,000)
Working capital				
- Payment of staff salary			(442,000)	(442,000)
- Professional fees			(439,000)	(439,000)
Total	(2,503,784)	(10,780,709)	(881,000)	(14,165,493)
Net Balances	2,834,716	3,731,791	-	6,566,507

The above utilisation is in accordance with the intended use of proceeds of the Shares Placements as stated in the announcement dated 13 November 2017 and 22 February 2018.

- 14. If the Group has obtained a general mandate from shareholders for Interested Person Transactions (“IPT”), the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.**

Name of Interested Person	Aggregate value of all interested person transactions during the financial 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)
N/A	N/A	N/A

No IPT general mandate has been obtained by the Group from the shareholders. There were no interested person transactions of S\$100,000 and above entered into in HY2020.

- 15. Confirmation that the issuer has procured undertakings from all its Directors and Executive Officers (in the format set out in Appendix 7.7) under Rule 720(1)**

The Company confirms that it has procured undertakings from all its directors and executive officers in the format set out in Appendix 7.7 under Rule 720(1) of the Listing Manual.

- 16. Confirmation pursuant to Rule 705(5) of the Listing Manual of SGX-ST**

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the unaudited half year financial statements for the period ended 30 June 2020 to be false or misleading in any material aspect.

On behalf of the Board of Directors,

Wang Yaoyu
Executive Chairman

Poh Kok Hong
Executive Director and CEO

BY ORDER OF THE BOARD

Poh Kok Hong
Executive Director and CEO
14 August 2020