



SOLUTIONS TO WATER & WASTE
DARCO WATER TECHNOLOGIES LIMITED
(Company Registration No. 200106732C)
(Incorporated in the Republic of Singapore)

**RESPONSES TO SINGAPORE EXCHANGE SECURITIES TRADING LIMITED'S QUERIES
ON THE COMPANY'S ANNOUNCEMENT – UNAUDITED FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2020**

The Board of Directors ("**Directors**") of Darco Water Technologies Limited ("**Company**") and together with its subsidiaries, collectively, "**Group**") refers to the Company's unaudited financial statements for the year ended 31 December 2020 released on the SGXNET on 1 March 2021. The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 11 March 2021 (each, an "**SGX Query**") as follows:

SGX Query 1:

It is disclosed on page 15 of the unaudited financial statements that, "Administrative expenses comprising of staff salary, professional fees, depreciation, and other operating expenses decreased from \$16.3 million in FY2019 to \$12.3 million in FY2020, mainly due to the one-off amortisation of intangible assets amounting to \$2.9 million in FY2019."

Please provide further information on the one-off amortisation of intangible assets, including the nature of intangible assets and an explanation on why the amortization of intangible assets is one-off.

Company's response to SGX Query 1:

Company would like to clarify that the decrease in administrative expenses is mainly due to:

- the one-off impairment of intangible assets amount to \$2.9 million in FY2019; and
- decrease in amortisation of intangible assets from \$1.7 million in FY2019 to \$0.2 million in FY2020.

In regards to the nature of intangible assets and the details of impairment, please refer to Query (c) of the announcement dated 19 June 2020.

SGX Query 2:

It is disclosed on page 16 of the unaudited financial statements that, "Trade receivables decreased from \$32.2 million in FY2019 to \$26.5 million in FY2020, mainly due to lower trade receivables in China. The outstanding receivables in China have decreased from \$20.7 million in FY2019 to \$16.5 million in FY2020."

Please explain the decrease in trade receivables, including the factors which resulted in a decrease in outstanding receivables in China.

Please disclose

- (i) the ageing profile of the Group's trade receivables; and
- (ii) the Board's assessment on the recoverability of the Group's trade receivables, and the basis for such an assessment.

Company's response to SGX Query 2:

The decrease in outstanding trade receivables in our China subsidiary is mainly due to ongoing construction work for certain projects in China which remain unbilled as at year end 2020 as the conditions for billing have not been met.

(i) Group's trade receivables ageing profile are as follows:-

	Current	<1 year	1-2 years	2-3 years	Total
	S\$'mil	S\$'mil	S\$'mil	S\$'mil	S\$'mil
Trade receivables as at 31.12.20	18.6	7.1	0.4	0.4	26.5

(ii) The management assesses the collectability of trade receivables regularly, by considering various factors such as financial condition of the customers, payment history and age of trade debts. Impairment on specific trade receivables would be made if the chance of recovery is deemed low. Additionally, the Expected Credit Losses ("ECL") model is also being applied to determine the loss allowance for trade receivables based on historical observed default rates adjusted for forward-looking estimates in accordance with SFRS(I) 9.

The Board views that the management has made a thorough review of the trade and other receivables and is satisfied with its recoverability, and that no further impairment is needed.

SGX Query 3:

It is disclosed on page 16 of the unaudited financial statements that, “Contract assets relating to China projects increased from \$12.5 million as at 31 December 2019 to \$18.5 million as at 31 December 2020.”

Please confirm as to whether the work is billed according to schedule.

Company’s response to SGX Query 3:

Yes. The increase in contract assets is mainly due to the unbilled work done for few projects in China. The Management has checked and confirmed that the conditions to issue invoices for the unbilled work done were not met at the end of Year 2020.

SGX Query 4:

It is disclosed on page 16 of the unaudited financial statements that, “The decrease in other receivables, deposits and prepayment were mainly due to the decrease in advance payment to suppliers from \$7.9 million as at 31 December 2019 to \$2.9 million on 31 December 2020.

This is partially offset by:

- (i) the increase in project tender deposits of \$0.9 million; and
- (ii) the increase in the prepayments by \$0.4 million.”

Please explain the decrease in other receivables.

Company’s response to SGX Query 4:

As explained in the announcement, the decrease in other receivables, deposits and prepayment were mainly due to the decrease in advance payment to suppliers from \$7.9 million as at 31 December 2019 to \$2.9 million on 31 December 2020.

The advance payments are the payment made in advance to suppliers for purchase of materials and goods for use in on-going projects. There were lesser outstanding advance payment made, where the materials and goods are not yet received by the Group at the end of Year 2020.

SGX Query 5:

Please disclose:

- (i) the nature of the non-current receivables of \$1,324,000; and
- (ii) the Board's assessment of the recoverability of the non-current trade and other receivables.

Company's response to SGX Query 5:

- (i) Non-current receivables consist of the non-current portion of the amount receivables from CA Trading Co., Ltd amounting to \$946,000 and Emsus Co., Ltd amounting to \$378,000. The current portion of the above receivables amount are included in trade and other receivables under current assets.

On 25 November 2020, the Company has entered into the deed of settlement with CA Trading Co., Ltd to repay the outstanding receivables of U\$985,000; refer to announcement dated 25 November 2020 for the details of the term of settlement.

On 26 November 2020, the Company has entered into deed of settlement with Emsus Co., Ltd on to reverse and unwind the acquisition of the 75% equity interest in PEI; refer to the announcement dated 26 November 2020 for the details of the term of settlement.

- (ii) The Board and management has assessed the collectability of the above receivables
 - (a) Based on the Board's assessment for the amount receivables from Emsus Co., Ltd as disclosed in announcement dated 7 December 2020, the Board is of the view that Emsus and/or Dr Yu would be able to honour or procure Emsus to honour the payment obligations under the Deed of Settlement in the absence of unforeseen circumstances.
 - (b) Referring to the Term of Settlement as announced on 25 November 2020 for the amount receivables from CA Trading Co., Ltd and/or Mr Dao, the management do not foresee any recoverability issue for this amount. In addition, CA Trading has been serving the instalments and there has been no default of payment so far.

Based on the above, the Board is of view that CA Trading would be able to honour the payment obligations under the Deed of Settlement in the absence of unforeseen circumstances.

By Order of the Board

Poh Kok Hong
Chief Executive Officer
15 March 2021