

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

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE COMPANY'S RESULTS ANNOUNCEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

The Board of Directors (the “**Board**”) of Darco Water Technologies Limited (the “**Company**”, and together with its subsidiaries, collectively the “**Group**”) refers to the Company’s Results Announcement for the financial year ended 31 December 2015 released on 29 February 2016. The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 10 March 2016 as follows:

SGX Query

We note that the Group recorded an allowance for impairment of S\$ 2.8 million on receivables for FY 2015. In this regard, please disclose:

- (i) reasons for the impairment; and**
- (ii) disclose actions taken by the Company to recover the impaired receivables.**

Company’s Response to SGX Query

- (i) The impairment loss of \$2.8 million is related mainly to an impairment loss on refundable deposits of NT\$ 60 million for the Build-Operate-Transfer (“BOT”) project of Puding Wastewater Management Co., Ltd (“Puding”) based on the audit conducted as at 31 July 2015.

On 16 March 2010, Puding entered into a BOT contract for water treatment plant with Taoyuan County Government (“TCG”) and the Company is the main subcontractor of the BOT project. In 2010, Puding identified hazardous materials on the ground during the construction and the BOT project has been suspended accordingly. As of 31 July 2015, the request for termination of BOT project is still under judicial review. Puding was penalized by TCG for non-compliance as stated in the BOT contract.

Due to unacceptable delays in the BOT project, Puding decided to bring TGC to court and terminate the BOT contract with TCG on 26 December 2012, and has requested for refund of the deposit guarantee of NT\$ 60,000,000. The Company had disclosed the information relation to the refund of the deposit guarantee of NT\$60,000,000 in the Company’s Annual Report for the financial year ended 31 December 2012, 31 December 2013 and 31 December 2014.

On 16 July 2015, the Court denied Puding’s request for return of deposit amounting to NT\$ 60,000,000. The Court ruled that the breach is not fundamental and Contract cannot be rescinded.

As a result, Puding recognized 100% provision for such deposit as of 31 July 2015 and then filed an appeal on 7 August 2015.

- (ii) No action is required by the Company, as it has disposed entirely its 100% in Darco Engineering (Taiwan) Co Ltd (“DET”) (“Disposal”). DET holds 51% of Puding Wastewater Management Co., Ltd as at July 2015. Puding is no longer a member of Darco Group.

The Company had released the announcements in relation to the Disposal to the SGX-ST on 27 July 2015, 4 August 2015 and 9 September 2015.

BY ORDER OF THE BOARD

Thye Kim Meng
Chairman, Managing Director and Chief Executive Officer
14 March 2016