



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 FINANCIAL PERIOD ENDED 30 JUNE 2021

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 financial period ended 30 June 2021 released on the SGXNET on 13 August 2021. The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 7 September 2021 (each, an “**SGX Query**”) as follows:

SGX Query 1:

It is disclosed on page 18 of the financial statements that “The Company has also given corporate guarantee for the borrowings.” Please disclose the relevant subsidiaries and the bank borrowings guaranteed by the Company for the respective subsidiaries. Please also disclose if these bank borrowings are secured or unsecured and provide details of securities if applicable.

Company’s response to SGX Query 1:

Group		<u>Current</u>	<u>Non-current</u>	<u>Total</u>
		\$'000	\$'000	\$'000
30 June 2021				
<u>Secured</u>	<u>Name of Subsidiary</u>			
Bank overdraft	Darco Water System Sdn Bhd	817	-	817
Term loan I	Darco Water System Sdn Bhd	6	-	6
Term loan II	Darco Industrial Water Sdn Bhd	31	-	31
Term loan III	Wuhan Kaidi Water Services Co., Ltd	784	-	784
Term loan IV	Darco Water System Sdn Bhd	51	874	925
Term loan V	PV Vacuum Engineering Pte Ltd	783	-	783
Term loan VI	PV Vacuum Engineering Pte Ltd	783	-	783
		<u>3,254</u>	<u>874</u>	<u>4,128</u>

Term loans I, II, III and IV are secured by pledges over freehold lands, freehold buildings and leasehold lands and buildings of the Group. In addition, the Company provided corporate guarantees for Term loans I, II, IV, V and VI.

SGX Query 2:

It is disclosed on page 21 of the financial statements that “Revenue from the EE Systems segment decreased from \$19.0 million in 1H2020 to \$8.7 million in 1H2021. This is mainly due to: (i) intense competition in China, has caused us facing difficulties in securing new projects...”.



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Please elaborate on the status of the Company's projects in China, including completed ones in FY2021. For the completed projects, please also disclose whether the amounts due have been received by the Company.

Company's response to SGX Query 2:

Revenue contribution from China subsidiary in 1H2021, mainly derived from 10 EPC projects executed in 1H2021.

Below are the project status updates:-

1. Two projects have been completed as of 30 June 2021 and outstanding amount due as at the date of this announcement is RMB 1.3 million (equivalent to \$0.3 million). Our team are in active communication with the customer to push for a collection of the amount due.
2. Four projects are at testing and commissioning ("T&C") stage. Once the T&C is completed and accepted by the respective customers, we can then hand over the plants to them.
3. Remaining four projects are still on-going where our subsidiary is currently working on. The percentage of completion as of 30 June 2021 ranged from 15% to 63%. The subsidiary is keeping track of the progress to ensure that each project is meeting its milestones as scheduled.

SGX Query 3:

It is disclosed on page 22 of the financial statements that "Trade receivables decreased from \$19.0 million as at 31 December 2020 to \$13.8 million as at 30 June 2021, mainly due to the lower outstanding billing in Malaysia and Singapore subsidiaries. Outstanding receivables from Malaysia and Singapore subsidiaries has reduced from \$9.3 million as at 31 December 2020 to \$3.3 million as at 30 June 2021."

- (i) Please disclose the ageing profile of the Group's trade receivables.
- (ii) Please disclose if the remaining trade receivables amount mainly relate to the Company's China subsidiaries. If yes, please explain why the trade receivables amount has increased from \$9.7M as at 31 Dec 2020 to \$10.5M as at 30 June 2021, despite a drop in revenue from PRC.

Company's response to SGX Query 3:

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

	Current	<1 year	1-2 years	2-3 years	Total
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
Trade receivables as at 30 June 2021	9,536	3,577	706	-	13,819



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- (ii) Outstanding trade receivables, contract assets and liabilities of China subsidiary are as follows: -

	30 June 2021	31 December 2020
	S\$'000	S\$'000
Trade receivables	10,076	9,341
Contract assets	20,519	25,958
Contract liabilities	(13,678)	(11,699)
	16,917	23,600

Despite the drop in revenue of the China subsidiary, there is a slight increase in the amount of trade receivables. As the EPC contractor, the revenue recognised is based on work progress completion while the progress billing to customers is based on milestone payments as set out in the respective contracts.

When the value of revenue recognised exceeds progress billing to the customers, the subsidiary recognises the difference as a contract asset. A contract liability is recognised in the reverse situation. Based on the above table, the net receivables due from customers has decreased from \$23.6 million as at 31 December 2020 to \$16.9 million as at 30 June 2021.

SGX Query 4:

Please disclose:

- (i) the nature of the non-current receivables; and
- (ii) the Board's assessment of the recoverability of the non-current other receivables.

Company's response to SGX Query 4:

- (i) Non-current receivables consist of the non-current portion of the amount receivable from CA Trading Co., Ltd amounting to \$946,000, and Emsus Co., Ltd amounting to \$378,000.

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

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

- (ii) The Board and Management have assessed the collectability of the above receivables, as follows:
 - (a) With reference to the amount due from CA Trading Co., Ltd and/or Mr Dao as disclosed in announcement dated 25 November 2020, CA Trading has so far been paying the instalments on a timely basis. The Board currently does not foresee any recoverability issues in the absence of unforeseen circumstances.



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(b) With reference to the amount due from Emsus Co., Ltd as disclosed in announcement dated 7 December 2020 and 4 August 2021, and in accordance with the Deed of Settlement, nothing has come to the attention of the Company at this stage that suggests Emsus and/or Dr Yu is not able to honour or procure Emsus to honour the payment obligations.

SGX Query 5:

Please explain why interest income amounted to only \$27k during the financial period ended 30 June 2021 when the Company has significant cash and bank balance amounting to \$19.9m.

Company's response to SGX Query 5:

The Group's cash and bank balance amounting to \$19.9 million are mainly maintained at subsidiaries for their working capital to run daily operations and support on-going projects. The interest income received is low because the majority of Group's cash are maintained in current accounts where interest rates are relatively low.

SGX Query 6:

Please state if a forecast or prospect statement has been previously disclosed to shareholders. If yes, please disclose if there is any variance between the prospect statement and the actual results.

Company's response to SGX Query 6:

With reference to page 18 of the full year 2020 results announcement release on 1 March 2021, the Group has made the following statement:

"The Group's subsidiaries in China and Malaysia are expected to maintain their results, barring unforeseen COVID-19 pandemic situation.

In Singapore, the Group foresees that its on-going construction of pneumatic waste conveyance systems would be impeded due to the COVID-19 pandemic measures imposed by the authorities. Construction costs are likely to escalate, given the tightening of labour regulations, and the increase in shipping costs due to constraints in shipping options."

Due to the deviation in actual group results for China and Malaysia against the above forecast statement, the Group has further disclosed on page 24 of the 1H2021 financial statements that:

"In China and Malaysia, the performance of the Group's subsidiaries recorded poorer performances in 1H2021, as compared with 1H2020. The Group's operations in Malaysia had been negatively impacted by developments surrounding the COVID-19 pandemic to a larger extent than was previously expected, while the China subsidiaries faced mounting challenges in the face of stiff competition."



By Order of the Board

Kong Chee Keong
Chief Executive Officer
13 September 2021