



SOLUTIONS TO WATER & WASTE

DARCO WATER TECHNOLOGIES LIMITED
Registration No. 200106732C
(Incorporated in Singapore)
AND SUBSIDIARIES

UNAUDITED FINANCIAL STATEMENTS
FOR THE FULL YEAR ENDED 31 DECEMBER 2021

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

A. Condensed consolidated statement of profit or loss and other comprehensive income

	Note	The Group					
		Unaudited 6 months 31-Dec-21 (\$'000)	Unaudited 6 months 31-Dec-20 (\$'000)	Change (%)	Unaudited 12 months 31-Dec-21 (\$'000)	Audited 12 months 31-Dec-20 (\$'000)	Change (%)
Revenue	3, 4	37,609	50,950	(26.2)	54,314	78,082	(30.4)
Cost of sales		(32,934)	(41,021)	(19.7)	(47,013)	(64,468)	(27.1)
Gross Profit		4,675	9,929	(52.9)	7,301	13,614	(46.4)
Other income	5	1,136	1,220	(6.9)	1,416	1,891	(25.1)
Distribution expenses		(659)	(530)	24.3	(1,479)	(1,118)	32.3
Administrative expenses		(6,214)	(6,988)	(11.1)	(10,612)	(12,506)	(15.1)
(Provision for)/reversal of impairment loss on financial assets		(3,368)	194	(1,836.1)	(3,258)	194	(1,779.4)
Finance costs	6	(656)	(147)	346.3	(765)	(254)	201.2
(Loss)/Profit before income tax		(5,086)	3,678	(238.3)	(7,397)	1,821	(506.2)
Income tax credit/(expense)	9	193	(357)	(154.1)	191	(536)	(135.6)
(Loss)/Profit for the financial period/year, net of tax		(4,893)	3,321	(247.3)	(7,206)	1,285	(660.8)
(Loss)/Profit attributable to:							
Equity holders of the Company		(4,477)	2,880	(255.5)	(6,353)	1,176	(640.2)
Non-controlling interests		(416)	441	(194.3)	(853)	109	(882.6)
		(4,893)	3,321	(247.3)	(7,206)	1,285	(660.8)
Other comprehensive income:							
<u>Items that may be reclassified to profit and loss subsequently</u>							
Currency translation differences arising from consolidation		247	121	104.1	202	229	(11.8)
Other comprehensive income for the financial period/year		247	121	104.1	202	229	(11.8)
Total comprehensive (loss)/income for the financial period/year		(4,646)	3,442	(235.0)	(7,004)	1,514	(562.6)
Total comprehensive loss attributable to:							
Equity holders of the Company		(4,356)	2,875	(251.5)	(6,278)	1,277	(591.6)
Non-controlling interests		(290)	567	(151.1)	(726)	237	(406.3)
		(4,646)	3,442	(235.0)	(7,004)	1,514	(562.6)
Earnings per share for (loss)/profit for the period /year attributable to the owners of the Company during the year							
Basic (in cent)		(4.77)	3.07		(6.77)	1.25	
Diluted (in cent)		(4.77)	3.07		(6.77)	1.25	

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

B. Condensed statements of financial position

	Note	Group		Company	
		Unaudited	Restated	Unaudited	Restated
		31/12/2021	31/12/2020	31/12/2021	31/12/2020
		\$'000	\$'000	\$'000	\$'000
ASSETS					
Non-current assets					
Property, plant equipment		5,587	5,808	-	-
Right-of-use assets		642	900	-	-
Intangible assets		2,713	1,621	-	-
Investment in subsidiaries		-	-	19,321	17,219
Deferred tax assets		966	410	-	-
Other receivables		797	1,324	788	1,324
		<u>10,705</u>	<u>10,063</u>	<u>20,109</u>	<u>18,543</u>
Current assets					
Inventories		4,541	1,816	-	-
Trade and other receivables		44,614	61,171	7,335	14,579
Income tax recoverable		358	279	-	-
Cash and bank balances		23,433	19,006	1,500	1,965
Total current assets		<u>72,946</u>	<u>82,272</u>	<u>8,835</u>	<u>16,544</u>
Total assets		<u>83,651</u>	<u>92,335</u>	<u>28,944</u>	<u>35,087</u>
LIABILITIES					
Current liabilities					
Trade and other payables		37,885	39,900	2,021	1,560
Borrowings	11	4,016	5,380	-	1,325
Lease liabilities		293	315	-	-
Other financial liabilities		2,783	763	-	-
Income tax payable		422	387	-	-
Total current liabilities		<u>45,399</u>	<u>46,745</u>	<u>2,021</u>	<u>2,885</u>
Non-current liabilities					
Borrowings	11	912	1,018	-	-
Lease liabilities		226	454	-	-
Deferred tax liabilities		3	3	-	-
Total non-current liabilities		<u>1,141</u>	<u>1,475</u>	<u>-</u>	<u>-</u>
Total liabilities		<u>46,540</u>	<u>48,220</u>	<u>2,021</u>	<u>2,885</u>
Net assets		<u>37,111</u>	<u>44,115</u>	<u>26,923</u>	<u>32,202</u>

B. Condensed statements of financial position (Continued)

	Note	Group		Company	
		Unaudited	Restated	Unaudited	Restated
		31/12/2021	31/12/2020	31/12/2021	31/12/2020
		\$'000	\$'000	\$'000	\$'000
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	12	76,766	76,766	76,766	76,766
Other reserves		(3,095)	(3,170)	-	-
Accumulated losses		(38,788)	(32,435)	(49,843)	(44,564)
		34,883	41,161	26,923	32,202
Non-controlling interests		2,228	2,954	-	-
Total equity		37,111	44,115	26,923	32,202

Darco Water Technologies Limited (Incorporated in Singapore)
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C. Condensed consolidated statement of cash flows

	Note	Full year ended 31 December	
		Unaudited 31/12/2021 (\$'000)	Audited 31/12/2020 (\$'000)
Cash flows from operating activities			
(Loss)/Profit before income tax		(7,397)	1,821
Adjustments for:			
Amortisation of intangible assets		24	153
Depreciation of property, plant and equipment		545	654
Depreciation of right-of-use assets		381	417
Fair value gain on derivative		-	(3)
Gain on disposal of property, plant and equipment		(28)	(19)
Provision for slow moving stock		-	36
Provision for / (reversal of) impairment loss on financial assets		3,258	(194)
Loss on disposal and liquidation of subsidiaries		202	88
Rental concessions		-	(30)
Reversal of payables		-	(35)
Interest expense		765	254
Interest income		(90)	(131)
Unrealised exchange differences		27	268
Operating (loss)/profit before working capital changes		(2,313)	3,279
Change in working capital:			
Inventories		(2,725)	4,513
Contract asset/(liabilities)		1,941	(21,686)
Trade and other receivables		9,926	9,121
Trade and other payables		(993)	3,660
Withdrawn of pledged fixed deposits and bank balances		507	1,235
Cash generated from operations		6,343	122
Income taxes paid		(408)	(596)
Net cash generated from/(used in) operating activities		5,935	(474)

C. Condensed consolidated statement of cash flows (Continued)

	Note	Full year ended 31 December	
		Unaudited 31/12/2021 (\$'000)	Audited 31/12/2020 (\$'000)
Cash flows from investing activities			
Disposal of subsidiaries, net of cash outflows		-	(8)
Liquidation of subsidiaries, net of cash outflows		-	(80)
Acquisition of subsidiary, net of cash outflows		(268)	-
(Placement)/ Withdrawn of pledged fixed deposits with tenure more than 3 months		(167)	41
Purchase of property, plant and equipment	10	(345)	(628)
Acquisition of right of use assets		(4)	-
Proceeds from disposal of property, plant and equipment		134	21
Purchase of intangible asset		(1,114)	(1)
Interest received		90	131
Net cash used in investing activities		(1,674)	(524)
Cash flows from financing activities			
Capital injection from non-controlling interests		2,020	-
Proceeds from borrowings		2,769	2,093
Repayment of borrowings		(3,273)	(7,968)
Principal repayment of lease liabilities		(371)	(367)
Interest paid		(196)	(233)
Net cash generated from/ (used in) financing activities		949	(6,475)
Net increase/(decrease) in cash and cash equivalents		5,210	(7,473)
Cash and cash equivalents at the beginning of financial year		12,937	20,179
Effect of exchange rate changes on cash and cash equivalents		563	231
Cash and cash equivalents at the end of financial year		18,710	12,937

C. Condensed consolidated statement of cash flows (Continued)

	Full year ended 31 Dec	
	Unaudited 2021 (\$'000)	Audited 2020 (\$'000)
Cash and cash equivalents comprise the following:-		
Bank and cash balances as per statements of financial position	23,433	19,006
Bank balances pledged	(1,543)	(1,512)
Fixed deposits pledged	(246)	(246)
Fixed deposits with tenure more than 3 months	(1,810)	(2,182)
Bank overdraft	(1,124)	(2,129)
Cash and cash equivalent as per consolidated cash flows	18,710	12,937

D. Condensed statements of changes in equity

	<u>Attributable to equity holders of the Company</u>				Non-controlling interests (\$'000)	Total (\$'000)
	Share capital (\$'000)	Other reserve (\$'000)	Accumulated losses (\$'000)	Total (\$'000)		
Balance as at 1.1.2021 (restated)	76,766	(3,170)	(32,435)	41,161	2,954	44,115
Loss for financial year	-	-	(6,353)	(6,353)	(853)	(7,206)
Other comprehensive income/(loss) for the financial year, net of tax						
- Currency translation differences arising from consolidation	-	75	-	75	127	202
Total comprehensive income / (loss) for the financial year	-	75	(6,353)	(6,278)	(726)	(7,004)
Balance as at 31.12.2021	76,766	(3,095)	(38,788)	34,883	2,228	37,111

D. Condensed statements of changes in equity (Continued)

	Attributable to equity holders of the Company			Total (\$'000)	Non- controlling interests (\$'000)	Total (\$'000)
	Share Capital (\$'000)	Other reserves (\$'000)	Accumulated losses (\$'000)			
Balance as at 1.1.2020	76,766	(3,395)	(33,487)	39,884	3,261	43,145
Reclassification to other financial liabilities	-	-	-	-	(763)	(763)
Profit for the financial year	-	-	1,176	1,176	109	1,285
Other comprehensive income/(loss) for the financial year, net of tax						
- Currency translation differences arising from consolidation	-	319	-	319	128	447
Currency translation differences arising from consolidation reclassified to profit or loss		(218)	-	(218)	-	(218)
Total comprehensive income for the financial year	-	101	1,176	1,277	237	1,514
Distribution to owner						
Transfer to statutory reserve	-	124	(124)	-	-	-
Change in ownership interest in subsidiaries						
Elimination of NCI upon of disposal and liquidation of subsidiaries	-	-	-	-	219	219
Balance as at 31.12.2020 (restated)	76,766	(3,170)	(32,435)	41,161	2,954	44,115

E. Notes to the condensed consolidated financial statements

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

1. General information

Darco Water Technologies Limited (the "Company") is a limited liability company incorporated and domiciled in Singapore and is listed on the Singapore Exchange Securities Trading Limited ("SGX-ST"). The address of the Company's registered office and its principal place of business is located at Harvest @ Woodlands, 280 Woodlands Industrial Park E5, #09-36, Singapore 757322.

The principal activities of the Company are those of investment holding and acting as a corporate manager and adviser and administrative centre to support business of the Company's subsidiaries. The principal activities of the subsidiaries are as follows: -

- (a) designing, installing, setting up and maintaining of industrial waste water treatment plant, ultra-pure system, testing of waste water and processed water, rendering of other related waste treatment plant services and trading in industrial water treatment equipment, spare parts and chemicals;
- (b) design and supply of environmental related equipment, centralised vacuum systems, refuse conveying system and any other engineering systems making use of vacuum technologies;
- (c) trading in vacuum cleaning systems and provision of related services; and
- (d) solid waste disposal treatment and incineration; noise and vibration prevention engineering; soil pollution control engineering; environmental monitoring system

2. Basis of preparation

The condensed interim financial statements for the year ended 31 December 2021 have been prepared in accordance with SFRS(I) 1-34 Interim Financial Reporting issued by the Accounting Standards Council Singapore. The condensed interim financial statements do not include all the information required for a complete set of financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance of the Group since the last annual financial statements for the year ended 31 December 2020.

The accounting policies adopted are consistent with those of the previous financial year which were prepared in accordance with SFRS(I)s, except for the adoption of new and amended standards as set out in Note 2.1.

The condensed interim financial statements are presented in Singapore dollar ("S\$") which is the Company's functional currency, and all values are recorded to nearest thousand (S\$'000) as indicated.

2.1. New and amended standards adopted by the Group

The Group has adopted the new and revised Singapore Financial Reporting Standards (International) ("SFRS(I)s") that are mandatory for financial years beginning on and after 1 January 2021, 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 January 2021.

2.2. Use of judgements and estimates

In preparing the condensed interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2020.

E. Notes to the condensed consolidated financial statements

2. Basis of preparation

2.2 Use of judgements and estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

2.2.1. Critical judgements

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following:

Revenue recognition on contract revenue

The Group has assessed its contracts in EE system as a single performance obligation due to the interdependence of services provided in these contracts.

Significant judgement is required in determining whether the performance obligations are distinct. Such considerations include the Group's assessment of whether the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customers and the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contracts.

For contracts with variable considerations (such as liquidated damages and discounts), the Group has applied judgement in determining the transaction price for the recognition of revenue. Such judgement includes assessment of the evaluation of any potential risks and factors which may affect the timely completion of the project as well as the quality of the output delivered to the customer.

2.2.2. Critical accounting estimates and assumptions

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next interim period are included in the following notes:

(a) Contract revenue – measuring progress

The Group recognises revenue from contract revenue over time using input method. The progress is measured by reference to the contract costs incurred to date to the estimated total costs for the contract. Significant assumptions are required to estimate the total contract costs that will affect the measure of progress towards complete satisfaction of the performance obligations; and to estimate the variable consideration that is not contracted. In making these estimates, management relied on past experiences and the knowledge of the project engineers.

The carrying amounts of contract assets and contract liabilities arising from contract revenue as at 31 December 2021 are \$19,397,000 and \$14,745,000, respectively.

If the estimated total contract costs to complete of major contracts increase / decrease by 10% from management's estimates, the Group's revenue will decrease / increase by \$452,000 (31 Dec 2020: \$840,000).

E. Notes to the condensed consolidated financial statements

2. Basis of preparation (Cont'd)

2.2 Use of judgements and estimates (Cont'd)

2.2.2. Critical accounting estimates and assumptions (Cont'd)

(b) Impairment of financial assets

Impairment allowance for financial assets measured at amortised costs are applied using the ECL model, which requires assumptions of risk of default and expected loss rates. The Group uses judgement in making these assumptions and determining key inputs to the impairment calculation, taking into account the Group's past history, existing market conditions as well as forward-looking information relating to industry, market development and macroeconomic factors. Expected loss rate is based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, geographical location, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

(c) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested.

(d) Income tax

Current tax

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. In determining the income tax liabilities of a routine tax assessment year, management estimated the amount of capital allowance and the deductibility of certain expenses at each tax jurisdiction. Where the final tax outcome is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's income tax recoverable and payable as at 31 December 2021 amounted to \$358,000 and \$422,000 (31 Dec 2020: \$279,000 and \$387,000) respectively.

Deferred tax - recognised

Changes in income tax laws and rates may affect recorded deferred tax assets and liabilities in the future. As at 31 December 2021, a subsidiary in The People's Republic of China which enjoys a concessionary tax rate of 15% (2020: 15%), had recognised deferred tax assets of approximately \$966,000 (31 Dec 2020: \$ 410,000) on the basis that the concessionary tax rate will still be available at the timing of reversal of the temporary differences.

E. Notes to the condensed consolidated financial statements

3. Segment and revenue information

For management purposes, the Group has three operating and reportable segments – Engineered Environmental Systems (“EE Systems”), Water Management Services (“WM Services”) and Trading. The principal activities of the Group’s operating segments are summarised as follows:

- (i) EE Systems – Contract to designs, fabricates, assembles, installs and commission engineered water systems for industrial application;
- (ii) WM Services – Services and maintains water and wastewater treatment plants; and
- (iii) Trading – Trades and supplies of goods comprising chemicals, electrical controls and related instruments used in water treatment systems.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated by the Chief Executive Officer (the chief operating decision maker) based on gross profit or loss of the respective segment. Segment assets and liabilities reported to the CEO represent total assets and liabilities of the reportable segment excluding the corporate functions and any unallocated amount recorded in subsidiaries with multiple segment businesses and subsidiaries that have yet to commence operations.

Seasonality of operations

The Group’s business is not affected significantly by seasonal or cyclical factors during the financial period.

Business segments

The information for the reportable segments for the financial year ended 31 December 2021 and 2020 is as follows:

31 December 2021	EE	WM Services	Trading	Eliminations	Total
	Systems				
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
Sales to external customers	38,935	6,964	8,415	-	54,314
Inter-segment sales	-	-	571	(571)	-
Total	38,935	6,964	8,986	(571)	54,314
Segment profit	4,836	1,132	1,333	-	7,301
Other information:					
Additions to property, plant and equipment	(147)	-	-	-	(147)
Amortisation of intangible assets	(24)	-	-	-	(24)
Depreciation of property, plant and equipment	(404)	-	(45)	-	(449)
Depreciation of right-of-use assets	(57)	(28)	(35)	-	(120)
Legal and other professional fees	(67)	(28)	(44)	-	(139)
Provision for/(Reversal of) Impairment loss on financial assets	(1,838)	(33)	9	-	(1,862)
Interest income	31	14	21	-	66
Finance costs	(117)	(33)	(44)	-	(194)
Gain on disposal of property, plant and equipment	-	28	-	-	28

E. Notes to the condensed consolidated financial statements

3. Segment and revenue information (Continued)

31 December 2020	EE				
	Systems	WM Services	Trading	Eliminations	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
Sales to external customers	61,638	6,914	9,530	-	78,082
Inter-segment sales	-	-	843	(843)	-
Total	61,638	6,914	10,373	(843)	78,082
Segment profit	9,866	928	2,820	-	13,614
Other information:					
Additions to property, plant and equipment	(140)	(88)	-	-	(228)
Reversal of impairment loss on financial assets, net	43	89	248	-	380
Amortisation of intangible assets	(153)	-	-	-	(153)
Depreciation of property, plant and equipment	(442)	(33)	(54)	-	(529)
Depreciation of right-of-use assets	(91)	(28)	(38)	-	(157)
Legal and other professional fees	(101)	(86)	(24)	-	(211)
Interest income	87	13	20	-	120
Finance costs	(170)	(32)	(49)	-	(251)
Gain on disposal of property, plant and equipment	1	1	17	-	19

Reconciliation

(i) Segment profits

The following items are added to / (deducted from) segment profit to arrive at "profit / (loss) before income tax" as presented in the consolidated statement of profit or loss and other comprehensive income:

	31 December 2021	31 December 2020
	\$'000	\$'000
Segment profit from the reportable segments	7,301	13,614
Other income	1,416	1,891
Distribution expenses	(1,479)	(1,118)
Administrative expenses	(10,612)	(12,506)
(Impairment loss)/ Reversal of impairment loss on financial assets	(3,258)	194
Finance costs	(765)	(254)
(Loss)/Profit before income tax	(7,397)	1,821

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4. Revenue

Disaggregation of revenue

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major type of goods and services and geographical location based on location of customers.

	Group			Total
	Contract revenue	Rendering of services	Sale of goods	
	\$'000	\$'000	\$'000	\$'000
31 December 2021				
Geographical markets				
PRC	26,372	-	-	26,372
Malaysia	3,892	5,989	8,066	17,947
Singapore	7,307	361	225	7,893
Vietnam	1,364	80	124	1,568
Others	-	534	-	534
	38,935	6,964	8,415	54,314
Timing of revenue recognition				
At a point of time	-	4,273	8,415	12,688
Over time	38,935	2,691	-	41,626
	38,935	6,964	8,415	54,314
31 December 2020				
Geographical markets				
PRC	40,728	-	-	40,728
Malaysia	11,233	5,870	9,001	26,104
Singapore	9,677	257	333	10,267
Vietnam	-	18	196	214
Others	-	769	-	769
	61,638	6,914	9,530	78,082
Timing of revenue recognition				
At a point of time	-	4,229	9,530	13,759
Over time	61,638	2,685	-	64,323
	61,638	6,914	9,530	78,082

A breakdown of sales:

	2021	2020
	\$'000	\$'000
Sales reported for the first half of the year	16,705	27,132
Loss after tax before non-controlling interest reported for the first half year	(2,313)	(2,036)
Sales reported for the second half of the year	37,609	50,950
(Loss)/profit after tax before non-controlling interest reported for the second half year	(4,893)	3,321

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5. Other income

	Group Financial Year Ended		Change %
	Unaudited	Audited	
	31 December 2021 \$'000	31 December 2020 \$'000	
Gain on disposal of property, plant and equipment	28	19	47.4
Gain on foreign exchange, net	425	215	97.7
Government grants:			
- Job support scheme	6	363	(98.3)
- Other Covid-19 related support	418	445	(6.1)
- Others	293	620	(52.7)
Interest income	90	131	(31.3)
Reversal of payables	-	35	n.m.
Miscellaneous income	156	33	372.7
Rental concessions	-	30	n.m.
	1,416	1,891	(25.1)

6. Finance costs

	Group Financial Year Ended		Change %
	Unaudited	Audited	
	31 December 2021 \$'000	31 December 2020 \$'000	
Interest expenses on:			
- finance liabilities (amount owing to non-controlling interests)	(569)	-	n.m.
- amount owing to a related party	-	(12)	(100.0)
- amount due to directors of the Company	-	(9)	(100.0)
- borrowings	(113)	(181)	(37.6)
- lease liabilities	(81)	(33)	145.5
- trust receipts	(2)	(19)	(89.5)
	(765)	(254)	201.2

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7. (Loss)/Profit before income tax

	Group Financial Year Ended		% Change
	Unaudited	Audited	
	31 December 2021	31 December 2020	
	\$'000	\$'000	
Amortisation of intangible assets	24	153	(84.3)
Auditors' remuneration paid / payable to:			
- auditor of the Company	162	166	(2.4)
- other auditors	144	164	(12.2)
Direct material costs included in cost of sales	21,338	40,222	(46.9)
Sub-contractor costs	7,585	7,082	7.1
Depreciation of property, plant and equipment	545	654	(16.7)
Depreciation of right-of-use assets	381	417	(8.6)
Fair value gain on derivatives	-	(3)	n.m.
Legal and other professional fees	1,082	1,064	1.9
Leases expenses not included in lease liabilities	127	172	(26.2)
Personnel expenses	11,510	11,036	4.3
Provision of slow moving stock	(1)	36	(102.8)
Loss on disposal and liquidation of subsidiaries	202	88	129.5
Research and development fees	1,135	1,608	(29.4)

8. Related party transactions

There are no material related party transactions apart from those disclosed elsewhere in the financial statements.

9. Taxation

The Group calculates the income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the condensed interim consolidated statement of profit or loss are:

Major components of income tax expense for the financial year were:

	Group	
	31 December	31 December
	2021	2020
	\$'000	\$'000
Current tax		
- Current year income tax expenses	369	560
- Under provision in the previous financial year	(44)	22
	325	582
Deferred tax		
- Current year	(516)	(21)
- Over provision in previous financial year	-	(25)
	(516)	(46)
	(191)	536

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10. Property, plant and equipment

During the year, the Group acquired assets amounting to \$345,000 (31 December 2020: \$628,000).

11. Borrowings

Amount repayable in one year or less, or on demand

As at 31 Dec 2021		As at 31 Dec 2020	
Secured	Unsecured	Secured	Unsecured
\$'000	\$'000	\$'000	\$'000
4,016	-	4,055	1,325

Amount repayable after one year

As at 31 Dec 2021		As at 31 Dec 2020	
Secured	Unsecured	Secured	Unsecured
\$'000	\$'000	\$'000	\$'000
912	-	1,018	-

Details of any collateral

As at 31 December 2021 and 31 December 2020, the secured borrowings are secured by corporate guarantees by the Company and freehold lands, freehold buildings and leasehold lands and building of the subsidiaries.

12. Share capital

	Group and Company			
	31 December 2021		31 December 2020	
	Number of ordinary shares	\$'000	Number of ordinary shares	\$'000
Issued and fully paid ordinary shares				
At beginning and end of the financial year	93,831,492	76,766	93,831,492	76,766

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

There were no outstanding convertibles and the Company did not hold any treasury shares as at 31 December 2021 and as at the end of the corresponding period of the immediately preceding financial year.

The Company's subsidiaries do not hold any shares in the Company as at 31 December 2021 and 31 December 2020.

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13. Financial assets and financial liabilities

Set out below is an overview of the financial assets and financial liabilities of the Group as at 31 December 2021 and 31 December 2020:

(i) Financial instruments by category

	Group		Company	
	31 December 2021	31 December 2020 (Restated)	31 December 2021	31 December 2020 (Restated)
	\$'000	\$'000	\$'000	\$'000
Financial assets at amortised cost:				
- Trade receivables	18,186	19,025	-	-
- Other receivables	4,514	8,692	7,305	15,869
- Contract assets	19,397	31,398	-	-
- Cash and bank balances	23,433	19,006	1,500	1,965
	<u>65,530</u>	<u>78,121</u>	<u>8,805</u>	<u>17,834</u>
Financial liabilities at amortised cost	<u>27,807</u>	<u>32,043</u>	<u>978</u>	<u>2,845</u>

14. Fair values of assets and liabilities

(i) Fair value of financial instruments that are carried at fair value

Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There has been no transfer from Level 1 and Level 2 to Level 3 during the financial year ended 31 December 2021. The Group had no financial assets or liabilities carried at fair value on 31 December 2021 and 31 December 2020. The Company had no financial assets or liabilities carried at fair value on 31 December 2021 and 31 December 2020.

(ii) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The carrying amounts of financial assets and financial liabilities reported on the reporting date are reasonable approximation of their fair values, due to:

- their short-term nature; or
- they are market interest rate instruments; or
- they are floating rate instruments that are repriced to market interest rate on or near the reporting date.

(iii) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

At the reporting date, there are no financial instruments in this category.

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15. Dividends

No dividend has been declared/recommended for the current financial year in view that the Company was loss making and would need to conserve cash for the working capital and investment purpose.

16. Net asset value

	Group		Company	
	Unaudited 31 December 2021 Cents	Restated 31 December 2021 Cents	Unaudited 31 December 2021 Cents	Restated 31 December 2021 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 year.	39.55	47.02	28.69	34.32
Number of ordinary shares	93,831,492	93,831,492	93,831,492	93,831,492

17. Subsequent events

There are no known subsequent events that would require adjustments to this set of financial statements.

18. Prior Year Reclassification

(a) Construction of concession assets

Construction of concession asset refers to the concession project to supply drinking water in Ben Tre Province of Vietnam ("Balai Project") where technical studies and development started in Year 2018 and then construction commenced in January 2021. Accordingly, the Group has reclassified the development and construction costs relating to this Balai Project as Intangible Asset in accordance with IFRIC 12 Concession Agreement.

Details of the reclassification are as follows:-

	Restated 31 December 2020 \$'000	Audited 31 December 2020 \$'000	Variance \$'000
Property, plant and equipment	5,808	6,079	(271)
Intangible assets	1,621	911	710
Trade and other receivables	61,171	61,180	(9)
Trade and other payables	(39,900)	(39,470)	(430)

(b) Obligation arising from written put option to Non-controlling interest on shares in a subsidiary

On 30 November 2018, the Company has entered into a shareholder agreement ("SHA") with InfraCo VietAqua Pte. Ltd ("infraCo") to develop a portfolio of water projects in Vietnam. Darco Infraco Vietnam Water Pte. Ltd. ("DIVW") was incorporated for this with the Company owning 51% and InfraCo 49% shareholding interest. Pursuant to the SHA, there is a call option exercisable by the Company to acquire InfraCo's 49% equity interest in DIVW and conversely a put option exercisable by InfraCo to sell its equity interest in DIVW to the Company.

Financial liabilities have been recognized arising from the above arrangement.

	Restated 31 December 2020 \$'000	Audited 31 December 2020 \$'000	Variance \$'000
Financial liabilities	763	-	763
Non-controlling interests	2,954	3,717	(763)

Other information

1. Review

The condensed consolidated statement of financial position of Darco Water Technologies Limited and its subsidiaries as at 31 December 2021 and the related condensed consolidated profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period and financial year then ended and certain explanatory notes have not been audited or reviewed.

2. Review of performance of the Group

(a) Consolidated statement of profit or loss and other comprehensive income

	Group		
	Full Year Ended		
	Unaudited 31/12/2021 (\$'000)	Audited 31/12/2020 (\$'000)	Change %
Engineered Environmental Systems ("EE Systems")	38,935	61,638	(36.8)
Water Management Services ("WM Services")	6,964	6,914	0.7
Trading	8,415	9,530	(11.7)
	<u>54,314</u>	<u>78,082</u>	<u>(30.4)</u>

Revenue of the Group decreased from \$78.1 million in FY2020 to \$54.3 million in FY2021.

Revenue from the EE Systems segment decreased from \$61.6 million in FY2020 to \$38.9 million in FY2021 mainly due to fewer EPC projects secured in Malaysia and China for year 2021. This is a result of intense market competition in China and long drawn COVID-19 movement restrictions imposed by the Malaysian authorities. Majority of tenders in Malaysia previously envisaged to be awarded in Year 2021 have been cancelled and or postponed to later dates. In Singapore, the manpower shortage situation was acute as strict border controls continue to constrain the inflow of migrant workers. This caused delays in completion of ongoing construction projects.

Revenue from the WM Services and trading segment is from the Malaysian subsidiaries. WM Services focuses on providing operation and maintenance ("O&M") service to industrial customers, while the trading segment is mainly sales of chemical, consumables, and spare parts to O&M customers. Revenue from WM Services remained stable while the slight decrease in trading sales is mainly due to slow-down in customers' operating activities amidst the long drawn-out COVID-19 pandemic situation in Malaysia.

During the year, the Group's gross profit ("GP") margin decreased from 17.4% in FY2020 to 13.4% in FY2021 mainly due to the lower margin from one of our subsidiaries in China - Wuhan Kaidi Water Services Co., Ltd. ("**Wuhan Kaidi**"). The cost of sales does not decline as much as the drop in revenue as there are fixed costs included in cost of sales such as project staffs' salaries.

Other income

The Group's other income decreased from \$1.9 million in FY2020 to \$1.4 million in FY2021. This is mainly due to lesser government grant of \$1.4 million in FY2020 compared to \$0.7mil in FY2021.

Operating expenses

The Group's marketing and distribution expenses, increased from \$1.1 million in FY2020 to \$1.5 million in FY2021 as travelling activities in China resumed to normalcy when the Chinese authorities relaxed the domestic travel restrictions in FY2021.

Administrative expenses comprising of staff salary, professional fees, depreciation, and other operating expenses, decreased from \$12.5 million in FY2020 to \$10.6 million in FY2021. In light of the lower turnover and market slowdown in Malaysia, the Group tightened its cost control measures by reducing administrative payroll cost and research and development ("R&D") fees.

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Provision for impairment loss on financial assets

The Group has provided for impairment loss on several projects that were previously announced, as follows:-

- (i) As per announcement dated 29 September 2021, Wuhan Kaidi has issued letter of demand to Wuhan Huangpi Kaidi Water Co., Ltd. for unpaid amount owing to WHKD. As the customer is disputing the amount owing, Wuhan Kaidi shall be commencing arbitration. Therefore, an impairment of \$1.2 million has been made during the year.
- (i) As per announcement on 29 December 2021, the Group has entered into deed of settlement with Condao Green Energy Co., Ltd for the repayment of the US\$600,000. As a result of the settlement, an impairment of US\$400,000 (equivalent to \$0.5 million) has been made during the year.
- (ii) The Group has obtained a default judgment (the "Default Judgment") in Singapore against Emsus Co. Ltd and Dr Do Yun Yu for the outstanding sum, where announcement been made on 22 February 2021. The Group is of the view that the amount will not be recoverable and impairment of \$0.9 million has been made.

During the year, Wuhan Kaidi had several discussions with a customer to recover an overdue retention sum of \$0.8 million ("Tianjin Beijiang") without any success thus far. As such, a full provision for impairment loss is made against this amount.

(b) Statements of financial position

Current assets

The Group's current assets comprise the following items:-

	As at 31 December 2021 (Unaudited)	As at 31 December 2020 (Restated)
	\$'000	\$'000
Trade receivables and contract assets	37,583	50,423
- trade receivables	18,186	19,025
- contract assets	19,397	31,398
Other receivables, deposits and prepayments	7,031	10,748
- other receivables	1,483	3,417
- deposits	1,175	3,226
- prepayments	365	848
- advances to suppliers	2,752	2,168
- others	1,256	1,089
Trade and other receivables	44,614	61,171
Inventories	4,541	1,816
Income tax recoverable	358	279
Cash and bank balances	23,433	19,006
Total	72,946	82,272

Trade and other receivables

Trade receivables and contract assets decreased from \$50.4 million as at 31 December 2020 to \$37.5 million as at 31 December 2021. This is mainly a result of intensified debt collection efforts in Wuhan Kaidi in FY2021. The Group has successfully collected those long overdue debts in China.

The decrease in other receivables is mainly due to:-

- i. \$0.5 million impairment of amount due from Con Dao Green Energy Co, Ltd; and
- ii. \$0.7 million repayment from amount due from Emsus Co., Ltd, and full impairment of the remaining balance of \$0.9 million.

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(b) Statements of financial position

Current assets

Trade and other receivables (Continued)

The decrease in deposits is mainly due to:

- i. repayment of the \$1.2 million deposit relating to the Gao Yi project; and
- ii. decrease in deposit paid to suppliers in Malaysia of \$0.6 million;

Inventories

The increase in inventories from \$1.8 million as at 31 December 2020 to \$4.5 million as at 31 December 2021 is mainly due to inventories in transit for new project secured in China.

Cash and bank balances

The increase in cash and bank balances is mainly from higher bank balances in Wuhan Kaidi as a result of intensified debt collection efforts in the later quarter of FY2021 in China.

Non-current assets

Our non-current assets comprise of property, plant and equipment, rights-of-use assets, intangible assets, deferred tax assets and other receivables.

Property, plant and equipment

The decrease in property, plant and equipment from \$5.8 million as at 31 December 2020 to \$5.6 million as at 31 December 2021 is mainly due to depreciation expenses incurred during the year.

Right-of-use assets

The Group's right-of-use assets are the long-term leases of office space, warehouse, and staff hostel.

Intangible assets

	As at 31 December 2021 (Unaudited)	As at 31 December 2020 (Restated)
	\$'000	\$'000
Intangible assets		
- Goodwill on acquisition	905	905
- Construction of concession asset	1,386	271
- Land use rights	421	439
- Software	1	6
	2,713	1,621

Construction of concession asset refers to development and construction costs of the Balai Project reclassified as Intangible Asset in accordance with IFRIC 12 Concession Agreement. The Balai Project is the first concession project under DIVW that was incorporated with InfraCo to undertake the development, implementation, financing, construction and operation of a portfolio of water supply projects in Vietnam.

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Current liabilities

Trade and other payables

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

	As at 31 December 2021 (Unaudited) \$'000	As at 31 December 2020 (Audited) \$'000
Trade payables	20,011	22,091
Contract liabilities	14,745	14,789
Other payables and accruals	3,129	3,020
Total	37,885	39,900

The decrease in trade payables from \$22.1 million as at 31 December 2020 to \$20.0 million as at 31 December 2021 is mainly due to the timing difference where payment has been made to its suppliers in China during FY2021.

No significant fluctuation in contract liabilities if compared to prior year.

The increase in other payables and accruals is mainly due to the recognition of the 12% interest per annum compounded daily that is payable to InfraCo if the option to buy-out its investment in DIVW was exercised.

Borrowings

Total borrowings decreased from \$6.4 million as at 31 December 2020 to \$4.9 million as at 31 December 2021 due to repayment of bank borrowing and shareholder loan.

(c) *Statement of cash flows*

	As at 31 December 2021 (Unaudited) \$'000	As at 31 December 2020 (Audited) \$'000
Cash flows from / (used in) operating activities	5,935	(474)
Cash flows used in investing activities	(1,674)	(524)
Cash flows from / (used in) financing activities	949	(6,475)
Net increase / (decrease) in cash and cash equivalents	5,210	(7,473)

The group cash position was \$23.4 million as at 31 December 2021, compared to \$19.0 million as at 31 December 2020.

Cash generated from operating activities in FY2021 was mainly from the collection of account receivables and contract assets in China during the year.

Cash used in investing activities in FY2021 was mainly used in the construction work of the Balai Project in Vietnam in FY2021.

Cash generated financing activities in FY2021 was mainly due to the capital injection of \$2 million from InfraCo for construction work of the Balai Project in Vietnam.

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

The financial results are in line with the outlook commentary made in the 1H2021 results announcement as well as the profit warning announced by the Company on 28 January 2022.

3. 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.

Given that Malaysia's economy has rebounded in Q4 2021, the Group expects that the performance for its Malaysia subsidiaries will gradually recover over the next 12 months, subject to COVID-19 pandemic situation.

The Group takes a cautiously optimistic approach in its China subsidiary over the next 12 months, while monitoring the prevailing pandemic developments, if any.

In Singapore, the Group foresees that its ongoing construction of pneumatic waste conveyance systems will continue to be limited by the manpower constraints. Construction costs are likely to escalate, given the fluctuations in raw material prices, rise in labour costs and also the escalation in shipping costs.

In Vietnam, we are finalizing a US\$8.8 million senior debt with a Vietnamese bank to finance the Balai Project's construction. We expect the Balai Project to achieve commercial operation by the end of Year 2022.

4. 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 year 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 \$100,000 and above entered into in FY2021.

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5. Use of proceeds

Pursuant to the share placements to Sofos, RS and WZ, which were 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
	\$	\$	\$	\$
<u>Funds received</u>				
Sofos Placement	-	630,000	270,000	900,000
RS Placement	-	1,470,000	630,000	2,100,000
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
<u>Funds used</u>				
Infrastructure projects	-	(8,882,709)	-	(8,882,709)
Engineering, Procurement and Construction (“EPC”) business expansion and funding of new projects in China and Malaysia	(4,338,500)	(1,165,264)	-	(5,503,764)
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			(863,000)	(863,000)
- Professional fees			(18,000)	(18,000)
Total	(5,338,500)	(14,047,973)	(881,000)	(20,267,473)
Net Balances	-	464,527	-	464,527

The above utilisation is in accordance with the intended use of proceeds of the Shares Placements as stated in the announcement dated 13 November 2018 and 22 February 2019.

- 6. Disclosure of person occupying a managerial position in the issuer or any of its principal subsidiaries who is a relative of a director of chief executive officer or substantial shareholder of the issuer pursuant to Rule 704(13) in the format below. If there are no such persons, the issuer must make an appropriate negative statement.**

The Company confirms that there is no person occupying any managerial positions in the Company or any of its principal subsidiaries who is a relative of a director, chief executive officer or substantial shareholder of the Company

- 7. 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 has received undertaking from all its directors and executive officers in the format as set out in Appendix 7.7 under Rule 720(1) of the Listing Manual of the SGX-ST.

BY ORDER OF THE BOARD

Kong Chee Keong
Executive Director and CEO
1 March 2022