



SOLUTIONS TO WATER & WASTE
Darco Water Technologies Limited

(Incorporated in the Republic of Singapore)
(Company Registration Number 200106732C)

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2019
RESPONSES TO QUERIES RAISED BY THE SGX-ST

The Board of Directors (the “**Board**”) of Darco Water Technologies Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) refers to the announcement made by the Company on 28 February 2020 (the “**Results Announcement**”) in relation to, *inter alia*, the unaudited consolidated financial statements of the Group for the financial year ended 31 December 2019 (“**FY2019**”) and sets out below the Company’s responses to queries raised by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) regarding the Results Announcement.

Query (a): With reference to the unaudited financial statements for the year ended 31 December 2019, it is disclosed that there is an impairment loss on financial assets of \$2,462,000 for the financial year ended 31 December 2019.

In relation to the financial assets for which impairment has been provided, please disclose:

- (i) The Company’s plans to recover the trade and other receivables;**
- (ii) Whether they are major customer(s) and whether the Company continues to transact with these customer(s);**
- (iii) How long are the debts outstanding and when were the sales reported;**
- (iv) What were the actions taken to recover the trade and other receivables;**
- (v) The reasons for the impairment on its financial assets;**
- (vi) The Board’s opinion on the reasonableness of the methodologies used to determine the value of the impairment of the trade and other receivables; and**
- (vii) The Board’s assessment of the recoverability of the remaining trade and other receivables.**

Company’s Response:

Based on the management assessment, impairment loss has been provided for the following financial assets: -

No.	Description	Amount S\$'000
1	Trade receivables and contract assets related to an EPC wastewater project in Binhai, China	1,048
2	Trade receivables and contract assets related to an EPC wastewater project in Medan, Indonesia	704
3	Project tender deposit for an EPC project in China	97
4	Other receivables from former subsidiary in Taiwan	613
		2,462

Company's Response:

- (i) The Company plans to recover part of the above-mentioned debts by issuing legal demand letter(s) against the receivables.
- (ii) None of the above-mentioned customers are major customers of the Group. The Company still has an on-going business relationship with the customer in item 2 above.
- (iii) For items (1) and (2), the sales were recorded in Year 2016, billed in Year 2016 and 2017. There were no sales recorded for items (3) and (4) above.
- (iv) The Group's employees have, to date, liaised with the customers via face-to-face meetings to demand for payment on the outstanding receivables. A legal demand letter has been issued in Year 2019 for Item (3) above.
- (v) Reasons for impairment are as below:-

No	Reason for impairment	Amount S\$'000
1	<p>Project has been completed since Year 2017.</p> <p>Our customer (main contractor) and the project owner were unable to finalise the project's final claim payment.</p> <p>In year 2019, our customer and the project owner have reached agreement on the final project claim, but the agreed settlement sum falls markedly short of the original contract price.</p> <p>Nevertheless, we have entered into negotiations with the customer after the above project settlement while taking the view that recoverability of the outstanding amount is low.</p>	1,048
2	<p>Project execution began in Year 2016 and there has been no further progress since Year 2017.</p> <p>In Year 2019, we understand that the project owner is faced with difficulties that has rendered the project halted since 2017. To date, we have no visibility on the timing nor the possibility on the resumption of the project.</p> <p>Therefore, we take the view that the recoverability of the outstanding amount is low.</p>	704
3	<p>Due to some licensing issues, the project has been stalled. We have further noted that the client is facing financial difficulties. We take the view that the recoverability of this tender deposit from customer is low</p>	97
4	<p>The former subsidiary has gone into liquidation in Year 2019 resulting in this impairment.</p>	613
		2,462

- (vi) The Board has assessed the recoverability of the above debtors and foresee that it is unlikely as the debts have been due for more than 3 years and given the facts as stated in (v) above, the Board has concurred to make full provision for impairment made on the outstanding amounts.
- (vii) The Company had made a thorough review of the remaining trade and other receivables (including advances to suppliers). The Board has also assessed the recoverability of the remaining trade and other receivables as at the end of FY2019, and is satisfied with the recoverability of the remaining trade receivables and views that no further impairment is needed.

Query (b): Please disclose (i) the reason for an increase in advance payment to suppliers from \$4.8mil as at 31 December 2018 to \$8.9mil in 31 December 2019; (ii) the nature of this advance payment; and (iii) the Board's assessment as to any impairment of the advance payment to suppliers.

Company's Response:

- (i) There were orders being placed towards the year end of 2019, and advance payments have been made to respective suppliers.. The orders were placed to purchase materials for use in on-going projects.
- (ii) The advance payment is the payment made in advance to suppliers for purchase of materials and goods.
- (iii) Please refer to the response to query (a)(vii) above. The Company has made a thorough review of the remaining advances to suppliers and is satisfied with the recoverability of the advance payment to suppliers and of the view that no further impairment is needed.

Query (c): It is stated on page 13 of the announced financial results that, revenue from EE Systems segment decreased from \$63.7 million in FY2018 to \$54.4 million in FY2019 mainly due to lower contribution from the Engineering, Procurement, and Construction ("EPC") projects in China and Malaysia. Please elaborate on the reason for a lower contribution from EPC projects.

Company's Response:

This is mainly due to stiff competition, as well as lesser EPC projects tendered out during the year in the industries/ segments that the Group operates within in China and Malaysia

Query (d): It is stated on page 15 of the announced financial results that, contract assets decreased mainly due to the lower unbilled work done for China projects. Please elaborate on the reasons for the lower unbilled work done for China projects.

Company's Response:

Contract Assets arose from revenue which was recognized, but yet to be billed to customers. This is due to the timing of billings to customers and the recognition of the related revenue.

The lower unbilled work done for China projects arose because most of the work done in China has been billed toward the year end of 2019, resulting in a lower unbilled work done recorded as at 31 December 2019.

By Order of the Board of
Darco Water Technologies Limited

Poh Kok Hong
Executive Director and Chief Executive Officer
10 March 2020