

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

Unaudited Financial Statements For the Full Year Ended 31 December 2018

PART I - INFORMATION REQUIRED FOR QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR ANNOUNCEMENTS

1(a)(i) An income statement and statement of comprehensive income, or a statement of comprehensive income, for the group together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Full year ended 31 December		change %
	Unaudited 2018 (S\$'000)	Audited 2017 (S\$'000)	
Revenue	83,956	60,731	38.2
Cost of sales	(69,865)	(46,125)	51.5
Gross profit	14,091	14,606	-3.5
Other income	627	1,335	-53.0
Marketing and distribution expenses	(2,147)	(1,743)	23.2
Administrative expenses	(13,998)	(11,985)	16.8
Finance costs	(585)	(273)	114.3
(Loss)/Profit before income tax	(2,012)	1,940	-203.7
Income tax expense	(245)	(712)	-65.6
(Loss)/Profit for the financial year, net of tax	(2,257)	1,228	-283.8
(Loss)/Profit attributable to:			
Equity holders of the Company	(1,874)	611	-406.7
Non-controlling interests	(383)	617	-162.1
	(2,257)	1,228	-283.8

Note: n.m- Not Meaningful

1(a)(ii) CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR FULL YEAR ENDED 31 DECEMBER 2018.

	Full year ended 31 December		change %
	Unaudited 2018 (S\$'000)	Audited 2017 (S\$'000)	
(Loss)/Profit for the financial year, net of tax	(2,257)	1,228	-283.8
Other comprehensive (loss)/income:			
<u>Items that may be reclassified to profit and loss subsequently</u>			
Currency translation differences arising from consolidation	(803)	(206)	289.8
Currency translation differences realized through disposal of a subsidiary	-	(5)	-100.0
Other comprehensive loss for the financial year	(803)	(211)	280.6
Total comprehensive (loss)/income for the financial year	(3,060)	1,017	-400.9
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company	(2,518)	484	-620.2
Non-controlling interests	(542)	533	-201.7
	(3,060)	1,017	-400.9

Note: n.m - not meaningful

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1(a)(iii) Profit before income tax from operations is arrived at after (charging)/crediting the followings:

Included in other income are:	Group Financial Year Ended		change %
	Unaudited 31/12/2018 (S\$'000)	Audited 31/12/2017 (S\$'000)	
Interest income	82	24	241.7
Government grants	389	151	157.6
Gain on disposal of plant and equipment	4	17	-76.5
Bad debts recovered	-	68	-100.0
Reversal of amount due to contract customer	-	1,035	-100.0
Debts no longer payables	128	-	n.m
Miscellaneous income	24	40	-40.0
	627	1,335	-53.0

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1(a)(iii) Profit before income tax from operations is arrived at after (charging)/crediting the followings:

Finance costs:	Group		
	Financial Year Ended		change %
	Unaudited 31/12/2018 (S\$'000)	Audited 31/12/2017 (S\$'000)	
Interest expense on:-			
Amount owing to related parties	232	30	673.3
Borrowings	272	191	42.4
Finance lease liabilities	4	4	-
Trust receipts	77	48	60.4
	<u>585</u>	<u>273</u>	114.3

Included in the (Loss)/Profit before income tax are:	Group		
	Financial Year Ended		change %
	Unaudited 31/12/2018 (S\$'000)	Audited 31/12/2017 (S\$'000)	
Impairment loss on trade and other receivables	616	64	862.5
Amortisation of intangible assets	1,752	1,741	0.6
Depreciation of property, plant and equipment	754	932	(19.2)
Inventories written down	-	33	(100.0)
Rental expense for operating leases	511	561	(8.9)
Personnel expenses	11,255	11,251	3.6
Legal and professional fees	1,015	994	2.1
Loss on disposal of a subsidiary	-	19	(100.0)
Loss on foreign exchange	276	325	(15.1)
Property, plant and equipment written off	-	8	(100.0)
Gain on disposal of property, plant and equipment	(4)	(17)	(76.5)
Reversal of amount due to contract customer	-	(1,035)	(100.0)
Research and development costs	1,409	1,005	40.2
Writeback of allowance for receivables	-	(68)	(100.0)

1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial years.

	Group		Company	
	Unaudited	Audited	Unaudited	Audited
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	S\$'000	S\$'000	S\$'000	S\$'000
ASSETS				
Non-current assets				
Property, plant equipment	5,563	5,482	-	-
Intangible assets	5,666	7,597	-	-
Investment in subsidiaries	-	-	14,645	12,210
Deferred tax assets	97	82	-	-
Other receivables	613	489	4,000	-
	<u>11,939</u>	<u>13,650</u>	<u>18,645</u>	<u>12,210</u>
Current assets				
Inventories	3,091	2,056	-	-
Trade and other receivables	68,923	50,089	12,250	8,027
Income tax recoverable	186	144	-	-
Cash and bank balances	27,606	17,463	13,577	7,621
	<u>99,806</u>	<u>69,752</u>	<u>25,827</u>	<u>15,648</u>
Total assets	<u>111,745</u>	<u>83,402</u>	<u>44,472</u>	<u>27,858</u>
LIABILITIES				
Current liabilities				
Trade and other payables	48,298	37,149	1,985	7,409
Borrowings	7,427	6,848	4,000	4,000
Income tax payable	479	757	-	-
	<u>56,204</u>	<u>44,754</u>	<u>5,985</u>	<u>11,409</u>
Non-current liabilities				
Other payables	-	-	-	-
Borrowings	917	1,284	-	-
Deferred tax liabilities	638	875	-	-
	<u>1,555</u>	<u>2,159</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>57,759</u>	<u>46,913</u>	<u>5,985</u>	<u>11,409</u>
Net assets	<u>53,986</u>	<u>36,489</u>	<u>38,487</u>	<u>16,449</u>

1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial years (Continued)

	Group		Company	
	Unaudited	Audited	Unaudited	Audited
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	S\$'000	S\$'000	S\$'000	S\$'000
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	76,766	54,274	76,766	54,274
Other reserves	(3,848)	(3,312)	-	-
Accumulated losses	(24,216)	(22,662)	(38,279)	(37,825)
	48,702	28,300	38,487	16,449
Non-controlling interests	5,284	8,189	-	-
Total equity	53,986	36,489	38,487	16,449

(b)(ii) Aggregate amount of group's borrowings and debt securities.

Amount repayable in one year or less, or on demand

As at 31 Dec 2018		As at 31 Dec 2017	
Secured	Unsecured	Secured	Unsecured
S\$'000	S\$'000	S\$'000	S\$'000
3,427	4,000	2,848	4,000

Amount repayable after one year

As at 31 Dec 2018		As at 31 Dec 2017	
Secured	Unsecured	Secured	Unsecured
S\$'000	S\$'000	S\$'000	S\$'000
917	-	1,284	-

Details of any collateral

As at 31 December 2018 and 31 December 2017, the secured borrowings are secured by corporate guarantees by the Company and freehold land and properties of subsidiaries.

1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Note	Full year ended 31 December	
		Unaudited 2018 (S\$'000)	Audited 2017 (S\$'000)
Cash flows from operating activities			
(Loss)/profit before income tax		(2,012)	1,940
Adjustments for:			
Amortisation of intangible assets		1,752	1,741
Depreciation of property, plant and equipment		754	932
Gain on disposal of property, plant and equipment		(4)	(17)
Loss on disposal of a subsidiary		-	19
Property, plant and equipment written off		-	8
Reversal of amount due to contract customers		-	(1,035)
Inventories written down		-	33
Impairment loss on trade and other receivables		616	64
Debts no longer payables		(128)	-
Interest expense		585	273
Interest income		(82)	(24)
Unrealised exchange differences		36	35
		<hr/>	<hr/>
Operating profit before working capital changes		1,517	3,969
Change in working capital:			
Inventories		(1,035)	(1,086)
Contract assets/liabilities		(16,418)	(78)
Trade and other receivables		(3,459)	(9,466)
Trade and other payables		16,163	4,295
Refund of pledged fixed deposits and bank balances		(1,959)	232
		<hr/>	<hr/>
Cash used in operations		(5,191)	(2,134)
Income taxes paid		(817)	(318)
		<hr/>	<hr/>
Net cash used in operating activities		(6,008)	(2,452)
		<hr/>	<hr/>

1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year. (Continued)

	Note	Full year ended 31 December	
		Unaudited 2018 (S\$'000)	Audited 2017 (S\$'000)
Cash flows from investing activities			
Purchase of property, plant and equipment	A	(841)	(1,202)
Proceeds from disposal of property, plant and equipment		4	17
Disposal of a subsidiary, net of cash disposed		-	1,355
Loan to a third party		(124)	(489)
Interest received		82	24
		<hr/>	<hr/>
Net cash used in investing activities		(879)	(295)
		<hr/>	<hr/>
Cash flows from financing activities			
Proceeds from issuance of new shares, by way of cash		16,148	3,000
Share issuance cost		(260)	(131)
Proceeds from borrowings		4,438	7,041
Repayment of borrowings		(5,042)	(1,676)
Repayment of finance lease liabilities		(41)	(48)
Dividend paid to non-controlling shareholder		-	(38)
Interest paid		(375)	(273)
Placements monies received in advance		-	4,844
		<hr/>	<hr/>
Net cash from financing activities		14,868	12,719
		<hr/>	<hr/>
Net increase in cash and cash equivalents		7,981	9,972
Cash and cash equivalents at beginning of financial year		15,379	5,494
Effect of exchange rate changes on cash and cash equivalents		(644)	(87)
		<hr/>	<hr/>
Cash and cash equivalents at end of financial year		22,716	15,379
		<hr/>	<hr/>

Note A

For the purpose of the consolidated statement of cash flows, the Group's additions to property, plant and equipment during the financial year comprised of:

	2018 \$'000	2017 \$'000
Property, plant and equipment purchased during the financial year	938	1,202
Less:		
Finance lease liabilities	(97)	-
	<hr/>	<hr/>
Cash payment to acquire property, plant and equipment	841	1,202
	<hr/>	<hr/>

1(c)(i) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Full year ended 31 Dec	
	Unaudited 2018 (S\$'000)	Audited 2017 (S\$'000)
Cash and cash equivalents comprise the following:-		
Bank and cash balances	27,606	17,463
Bank balances pledged	(3,564)	(1,125)
Short-term bank deposits pledged	-	(480)
Bank overdraft	(1,326)	(479)
Cash and cash equivalent as per consolidated cash flows	22,716	15,379

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Share Capital (S\$'000)	Other reserves (S\$'000)	Accumulated losses (S\$'000)	Sub- Total (S\$'000)	NCI (S\$'000)	Total (S\$'000)
Balance as at 1.1.2018	54,274	(3,312)	(22,662)	28,300	8,189	36,489
Effect of adoption of SFRS (I) 9	-	-	(175)	(175)	-	(175)
Loss for the financial year	-	-	(1,874)	(1,874)	(383)	(2,257)
Other comprehensive loss						
- Currency translation differences arising from consolidation	-	(644)	-	(644)	(159)	(803)
Total comprehensive loss for the financial year	-	(644)	(1,874)	(2,518)	(542)	(3,060)
<u>Contribution by and distribution to owners</u>						
Issuance of shares	22,492	-	-	22,492	-	22,492
Transfer to a statutory reserve	-	108	(108)	-	-	-
Total contributions by and distribution to owners	22,492	108	(108)	22,492	-	22,492
<u>Change in ownership interests in subsidiaries</u>						
Additional equity interest in a subsidiary	-	-	603	603	(2,363)	(1,760)
Total change in ownership interests in subsidiaries	-	-	603	603	(2,363)	(1,760)
Balance as at 31.12.2018	76,766	(3,848)	(24,216)	48,702	5,284	53,986

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year. (Continued)

	Share Capital (S\$'000)	Other reserves (S\$'000)	Accumulated losses (S\$'000)	Sub- Total (S\$'000)	NCI (S\$'000)	Total (S\$'000)
Balance as at 1.1.2017	51,405	(3,331)	(23,127)	24,947	9,436	34,383
Profit for the financial year	-	-	611	611	617	1,228
Other comprehensive income/(loss) for the financial year, net of tax						
- Currency translation differences arising from consolidation	-	(122)	-	(122)	(84)	(206)
- Currency translation differences arising from disposal of a subsidiary	-	(5)	-	(5)	-	(5)
Total comprehensive income/(loss) for the financial year	-	(127)	611	484	533	1,017
<u>Contribution by owners</u>						
Issuances of shares, net	2,869	-	-	2,869	-	2,869
Transfer to a statutory reserve	-	146	(146)	-	-	-
Dividend paid	-	-	-	-	(38)	(38)
Total contributions by and distribution to owners	2,869	146	(146)	2,869	(38)	2,831
<u>Change in ownership interests in subsidiaries</u>						
Disposal of a subsidiary	-	-	-	-	(1,742)	(1,742)
Balance as at 31.12.2017	54,274	(3,312)	(22,662)	28,300	8,189	36,489

1(d)(i) A statement of Changes in equity of the Company

Company	Share Capital (S\$'000)	Accumulated Losses (S\$'000)	Total (S\$'000)
Balance at 1 Jan 2018	54,274	(37,825)	16,449
Total comprehensive loss for the financial year	-	(454)	(454)
Contribution by owners			
- Issuance of shares	22,492	-	22,492
Balance at 31 Dec 2018	<u>76,766</u>	<u>(38,279)</u>	<u>38,487</u>

Company	Share Capital (S\$'000)	Accumulated Losses (S\$'000)	Total (S\$'000)
Balance at 1 Jan 2017	51,405	(37,454)	13,951
Total comprehensive loss for the financial year	-	(371)	(371)
Contribution by owners			
- Issuance of shares	2,869	-	2,869
Balance at 31 Dec 2017	<u>54,274</u>	<u>(37,825)</u>	<u>16,449</u>

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State the number of shares that may be issued on conversion of all the outstanding convertibles if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

During the financial period, the Company has announced that it has:

- (a) allotted and issued 3,500,000 new ordinary shares in the capital of the Company to Sofos Investment Fund SPC ("Sofos") on 8 February 2018;
- (b) allotted and issued 3,824,891 new ordinary shares in the capital of the Company to Wah Lee Industrial Corp. ("Wah Lee") and Jilead Technology Co., Ltd ("Jilead") on 21 March 2018;
- (c) allotted and issued 1,500,000 new ordinary shares in the capital of the Company to Stone Robert Alexander ("RS") on 21 March 2018; and
- (d) allotted and issued 27,680,000 new ordinary shares in the capital of the Company to Wang Zhi ("WZ") on 23 March 2018.

As a result of the above, the total number of shares has increased from 57,326,601 shares to 93,831,492 shares.

	Company		
	As at 31/12/2018	As at 30/6/2018	As at 31/12/2017
Number of ordinary shares	93,831,492	93,831,492	57,326,601
	Company		
	As at 31/12/2018	As at 30/6/2018	As at 31/12/2017
	\$'000	\$'000	\$'000
Issued and paid up capital	76,766	76,766	54,274

There were no outstanding convertibles or shares held as treasury shares as at the end of the current financial year reported on and as at the end of the corresponding year of the immediately preceding financial year.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

As at 31 December 2018 and 31 December 2017, the issued ordinary shares of the Company was 93,831,492 and 57,326,601 respectively. There were no treasury shares as at 31 December 2018 and 31 December 2017.

1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable. The Company does not have any treasury shares during and as at the end of the current financial period reported on.

1(d)(v) A statement showing all sales, transfers, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.

Not applicable. The Company does not have any subsidiary holdings during and as at the end of the current financial period reported on.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

These figures have not been reviewed nor audited by the Company's auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

Save as disclosed in paragraph 5 below, the Group has adopted the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting year as per the most recent audited financial statements for the financial year ended 31 December 2017.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

In December 2017, the Accounting Standards Council ("ASC") issued the Singapore Financial Reporting Standards (International) ("SFRS(I)"). SFRS(I) comprises standards and interpretations that are equivalent to International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") at 31 December 2017 that are applicable for annual period beginning on 1 January 2018.

Singapore-incorporated companies that have issued, or are in the process of issuing, equity or debt instruments for trading in a public market in Singapore, will apply SFRS(I) with effect from annual periods beginning on or after 1 January 2018.

The Group has adopted SFRS(I) on 1 January 2018. In addition to the adoption of the new framework, the Group concurrently applies the new SFRS(I)s, interpretations of SFRS(I)s and requirements of SFRS(I)s which are mandatorily effective from the same date.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change. (Cont'd)

The Group does not expect the application of the new standards and interpretations to have a significant impact on the financial statements, except for SFRS(I) 1, SFRS(I) 9 and SFRS(I) 15.

SFRS(I) 1 First-time Adoption of Singapore Financial Reporting Standards (International)

SFRS(I) 1 required that the Group applied SFRS(I) on a retrospective basis and restatement of comparatives may be required because of SFRS(I) 1 requires both the operating balance sheet and comparative information to be prepared using the most current accounting policies. SFRS(I) 1 provides mandatory exceptions and optional exemptions from retrospective application, but these are often different from those specific transition provisions in individual FRSs applied to FRS financial statements. The adoption of SFRS(I) 1 does not have any significant impact on the Group's financial statements.

SFRS(I) 9 Financial Instruments

SFRS(I) 9 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. The Group's trade receivables are subjected to the expected credit loss impairment model under SFRS(I) 9.

The Group has elected to apply the short-term exemption to adopt SFRS(I) 9 on 1 January 2018. Accordingly, the requirements of SFRS 39 Financial Instruments: Recognition and Measurement are applied to financial instruments up to the financial year ended 31 December 2017. The Group is also exempted from complying with SFRS(I) 7 Financial Instruments: Disclosure to the extent that the disclosures required by SFRS(I) 7 relate to the items within scope of SFRS(I) 9.

SFRS(I) 9 requires the Group to record expected credit losses ("ECL") on all of its loans and trade receivables, either on a 12-month or lifetime basis. The Group adopts the simplified approach and records lifetime ECL on all trade receivables. As a result, receivables and retained earnings as at 1 January 2018 were adjusted by \$175,000.

SFRS(I) 15 Revenue from Contracts with Customers

SFRS(I) 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It also introduces new cost guidance which requires certain costs of obtaining and fulfilling contracts to be recognised as separate assets when specified criteria are met. The adoption of SFRS(I) 15 does not have any significant impact on the Group's financial statements.

6. **Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**
(a) Based on the weighted average number of ordinary shares on issue; and
(b) On a fully diluted basis (detailing any adjustments made to the earnings).

	Financial Year ended	
	Unaudited 31/12/2018 \$'000	Audited 31/12/2017 \$'000
Earnings per ordinary shares of the group for the current year reported on and the corresponding period of the immediate preceding financial year:-		
Net (loss)/profit attributable to equity holders of the Company (\$'000)	(1,874)	611
Weighted average number of ordinary shares outstanding for basic earnings per share - adjusted	86,071,899	55,819,752
Basic and diluted (loss)/earnings per share (Cents)	(2.18)	1.09

The basic and diluted earnings per share were the same as there were no potentially dilutive ordinary securities in issue as at 31 December 2017 and 31 December 2018.

7. **Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:-**
(a) current financial period reported on; and
(b) immediately preceding financial year.

	Group		Company	
	Unaudited 31/12/2018 Cents	Audited 31/12/2017 Cents	Unaudited 31/12/2018 Cents	Audited 31/12/2017 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.	57.54	63.65	41.02	28.69
Number of ordinary shares	93,831,492	57,326,601	93,831,492	57,326,601

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-**

(a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and

(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

Revenue from continuing operations and Gross Profit

	Group		Change
	Full Year Ended		
	Unaudited	Audited	
	31/12/2018	31/12/2017	%
	(\$'000)	(\$'000)	
Engineered Environmental Systems ("EE Systems")	63,848	40,589	57.3
Water Management Services ("WM Services")	8,385	10,822	-22.5
Trading	11,723	9,320	25.8
	<u>83,956</u>	<u>60,731</u>	38.2

Revenue of the Group increased from \$60.7 million in FY2017 to \$84.0 million in FY2018.

Revenue from EE Systems segment increased from \$40.6 million in FY2017 to \$63.8 million in FY2018 mainly due to higher contribution from the Engineering, Procurement, and Construction ("EPC") projects in China and Malaysia.

Revenue from WM Services segment decreased from \$10.8 million in FY2017 to \$8.4 million in FY2018 following the sale of Darco Youli Medical Waste operations in Taiwan, resulting in no service revenue contribution from that subsidiary (As per announcement dated 16 June 2017, the Group has entered into two separate sale and purchase agreements for the disposal of Darco Youli, which was completed on 30 September 2017)

Sales from trading of chemical, spare parts and others increased from \$9.3 million in FY2017 to \$11.7 million in FY2018 mainly due to higher trading volume of parts in Malaysia to our water treatment customers in Malaysia.

The Group's overall gross profit maintained at \$14.1 million in FY2018 as compared to \$14.6 million in FY2017. However, the Group's overall gross profit ("GP") margin has decreased from 24.1% in FY2017 to 16.8% in FY2018. Due to the stiff competition in the China market, the Group has had to lower its profit margin when tendering and securing the larger contracts in China. As China is one of our major market segments, the lower margin for China projects has significantly reduced the overall Group profit margin for the year.

Other income

The Group's other income has decrease from \$1.3 million in FY2017 to \$0.6 million in FY2018, in the absence of a one-off reversal amount of \$1.0 million due to a contract customer, as reflected in FY2017. In FY2017, the Management then had determined that a project that was included in a contract order signed in July 2015 (pre-acquisition of WHKD, with no work started to-date), had no prospect of completion. Accordingly, the reversal of the amount due to contract customer in relation to that project has been made in FY2017.

The above mentioned decrease was partially offset by the increased in government grant income which increased from \$151,000 in FY2017 to \$389,000 in FY2018.

Operating expenses

The group's marketing and distribution expenses increased from \$1.7 million in FY2017 to \$2.1 million in FY2018 mainly due to higher marketing cost incurred in China. The increased in the sales and marketing expenses mainly due to the China subsidiary has participate in more tenders and secured more larger EPC projects in China.

Administrative expenses which comprise of staff salary, professional fees, rental and other operating expenses, increased slightly from \$12.0 million in FY2017 to \$14.0 million in FY2018, mainly due to the followings:

- (i) Group's expenditure of \$0.5 million in FY2018 for the developmental costs of concession projects in Vietnam. This includes professional fees paid in engaging technical and legal consultants in Vietnam.
- (ii) The research and development costs has increased from \$1.0 million in FY2017 to \$1.4 million in FY2018. Research and development costs are mainly incurred by the subsidiary in China in performing water treatment research and development technology.
- (iii) Impairment for trade receivables and contract assets amounting to \$0.6 million has been made under the new SFRS(I) 9.

Finance expenses

Finance costs increased by \$0.3 million mainly due to the newly secured borrowings of \$4.0 million from a shareholder, which was used to fund working capital in China. Additionally, there was a higher utilisation of bank overdraft and trust receipts facilities in Singapore and Malaysia in FY2018.

Income tax expense

The decrease in income tax expenses is mainly due to the lower provision of income tax resulting from lower profit generated from the China subsidiary and reversal of deferred tax liabilities amounting to to \$0.3 million in FY2018.

Balance sheet

Current assets

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

	As at 31 December 2018 (Unaudited)	As at 31 December 2017 (Audited)
	\$'000	\$'000
Trade receivables	19,326	22,898
Contract assets	36,533	20,367
Other receivables, deposits and prepayments	13,064	6,824
Trade and other receivables	68,923	50,089
Inventories	3,091	2,056
Income tax recoverable	186	144
Cash and bank balances	27,606	17,463
Total	99,806	69,752

Trade and other receivables

Trade receivables decreased from \$22.9 million in FY2017 to \$19.3 million in FY2018, mainly due to lower trade receivables in China. The outstanding receivables in China has decreased from \$15.0 million in FY2017 to \$8.7 million in FY2018. The decreased was partially offset by the increase in the receivables in Malaysia, which has increased from \$5.7 million in FY2017 to \$9.9 million in FY2018.

Balance sheet

Current assets (Cont'd)

Contract assets increased mainly due to the higher unbilled work done for China projects. Contract assets relating to China projects has increased from \$18.1 million as at 31 December 2017 to \$33.0 million as at 31 December 2018.

The increase in other receivables was mainly due to:-

1. A refundable deposit of RMB6 million (approximately \$1.2 million) has been made to Mr. Wang Zhi ("Vendor") as part of the purchase consideration for the acquisition of a sewage treatment asset in China,
2. Increase in advance payment to suppliers from \$0.6mil as at 31 December 2017 to \$5.1mil in 31 December 2018, and
3. Increase in the VAT receivables from \$2.3 million in 31 December 2017 to \$3.0 million in 31 December 2018.

Inventories

There is an increase in inventories from \$2.1 million in FY2017 to \$3.1 million in FY2018, mainly due to the bulk purchase of materials towards the year end for use in upcoming EPC projects, which is then reflected as closing stock.

Cash and bank balances

The Group's cash and bank balances has increased from \$17.5 million in FY2017 to \$27.6 million in FY2018. The increase is mainly due to the proceeds from issuance of new shares, by way of cash amounting to \$16.1 million.

The above mentioned increase was partially offset by the funds used in operating activities amounting to \$6.0 million during the financial year.

Non-current assets

Our non-current assets comprises of property, plant and equipment, intangible assets and deferred tax assets.

The increase in property, plant and equipment is mainly due to the purchase of motor vehicles and plant and equipment amounting to \$0.9 million during the year. The increase was partially offset by the depreciation charged amounting to \$0.8 million in FY2018.

The decrease in intangible assets is mainly due to the amortisation of intangible assets over its useful lives, amounting to \$1.7 million of the China subsidiary.

Current liabilities

Trade and other payables

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

	As at 31 December 2018 (Unaudited)	As at 31 December 2017 (Audited)
	\$'000	\$'000
Trade payables	30,382	18,031
Other payables and accruals	17,043	17,993
Contract liabilities	873	1,125
Total	48,298	37,149

The increase in trade payables from \$18.0 million in FY2017 to \$30.4 million in FY2018 is mainly due to numerous purchases made towards the end of the financial period, which remained unpaid as at 31 December 2018, in our China and Malaysia subsidiaries.

The decrease in other payables and accruals is mainly due to the fact that placement monies that was received in advance amounting to \$4.8 million as at 31 December 2017 has been reversed to share capital, following the completion of the placement during the financial year.

The above mentioned decrease was partially offset by the increase in advances from customers from \$9.7 million as at 31 Dec 2017 to \$13.5 million as at 31 December 2018.

Contract liabilities decreased mainly due to decrease in advance billing for work done in our projects in Singapore and Malaysia.

Borrowings

Total borrowings increased from \$8.1 million as at 31 December 2017 to \$8.3 million as at 31 December 2018. The net increase is mainly due to additional loan and overdraft drawdowns amounting to \$0.3 million during the financial year.

Equity

Share capital increased from \$54.3 million as at 31 December 2017 to \$76.8 million as at 31 December 2018. The increase in share capital was due to the issuance of 36,504,891 shares to investors, as disclosed in 1(d)(ii).

Cash flow statement for the year ended

	Unaudited 31 Dec 2018 S\$'000	Audited 31 Dec 2017 S\$'000
Net cash used in operating activities	(6,008)	(2,452)
Cash flows used in investing activities	(879)	(295)
Cash flows from financing activities	14,868	12,719
Net increase in cash and cash equivalents	<u>7,981</u>	<u>9,972</u>

The group cash position was \$27.6 million as at 31 December 2018 compared to \$17.5 million, as at 31 December 2017.

Cash flow statement for the year ended (Cont'd)

Cash used in operating activities in FY2018 of \$6.0 million was mainly used to finance the construction of EPC projects. This comprised operating cash flows before working capital changes of \$1.5 million, less changes in net working capital outflow of \$5.2 million and income tax paid of \$0.8 million.

Cash used in investing activities in FY2018 of \$0.9 million was mainly used for the purchase of plant and equipment amounting to \$0.8 million.

Cash generated from financing activities in FY2018 of \$14.9 million mainly arose from the net proceeds from share placement of \$16.1 million.

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

The business activities of the Group remain broad-based and the actual results are in line with the statements made in announcements released earlier.

10. 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.

The Group shall intensify the pursuit of its policy to generate recurring income from investment in environmental infrastructure, which includes water treatment, green energy generation, as well as waste recovery. The Group expects promising developments arising from the need for environmental infrastructure in Vietnam, Malaysia and China for the next 12 months, and is in a good position to capitalise on investment opportunities.

As for income from the EE Systems business segment, particularly in China, stiff competition for EPC contracts in water treatment is likely to persist, which may lead to modest margins and further business consolidation for the next 12 months, as we have seen in FY2018.

As for WM Services, the Group seeks to maintain its market share in Malaysia where it dominates.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

Not applicable.

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

No

11. Dividend (Cont'd)**(c) Date payable**

Not applicable

(d) Books closure date

Not applicable

12. If no dividend has been declared/recommended, a statement to that effect and the reason(s) for the decision.

No dividend has been declared/recommended for FY2018 in view that the Company was loss making.

13. Use of Rights issue 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
	\$'000	\$'000	\$'000	\$'000
Funds received				
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
Funds used				
Infrastructure projects	-	(3,083,600)	-	(3,083,600)
Engineering, Procurement and Construction ("EPC") business expansion in China	(868,800)	-	-	(868,800)
Business expansion – Pneumatic Waste Conveyance System	(1,000,000)	-	-	(1,000,000)
Total	(1,868,800)	(3,083,600)	-	(4,952,400)
Net Balances	3,469,700	11,428,900	881,000	15,799,600

The above utilisation is in accordance with the intended use of proceeds of the Shares Placements as stated in the announcement dated 13 November 2017 and 22 February 2018.

14. Segmented revenue and results of business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year

The segment information for the reportable segments of continuing operations for the financial year ended 31 December 2018 is as follows:

2018

	EE Systems \$'000	WM Services \$'000	Trading \$'000	Eliminations \$'000	Total \$'000
Revenue					
Sales to external customers	63,848	8,385	11,723	-	83,956
Inter-segment sales	-	-	-	-	-
Total	63,848	8,385	11,723	-	83,956
Segment profit	6,346	3,705	4,040	-	14,091
Other information:					
Additions to property, plant and equipment	378	4	144	-	526
Impairment loss on trade and other receivables	616	-	-	-	616
Amortisation of intangible assets	1,752	-	-	-	1,752
Depreciation of property, plant and equipment	187	54	71	-	312
Finance costs	56	-	3	-	59
Interest income	10	15	2	-	27
Gain on disposal of property, plant and equipment	4	-	-	-	4
Legal & Professional Fees	17	9	21	-	47
Assets					
Segment assets	69,638	3,389	6,715	-	79,742
Liabilities					
Segment liabilities	35,019	2,196	5,878	-	43,093

Segment assets and liabilities are derived after deducting deferred tax assets and liabilities.

14. Segmented revenue and results of business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year (Continued)

The segment information for the reportable segments of continuing operations for the financial year ended 31 December 2017 is as follows:

2017

	EE Systems \$'000	WM Services \$'000	Trading \$'000	Eliminations \$'000	Total \$'000
Revenue					
Sales to external customers	40,589	10,822	9,320	-	60,731
Inter-segment sales	160	-	139	(299)	-
Total	40,749	10,822	9,459	(299)	60,731
Segment profit	8,152	5,055	1,450	(51)	14,606
Other information:					
Additions to property, plant and equipment	459	-	91	-	550
Impairment loss on trade and other receivables	9	21	26	-	56
Reversal of impairment loss on trade receivables	(59)	(5)	(4)	-	(68)
Amortisation of intangible assets	1,741	-	-	-	1,741
Depreciation of property, plant and equipment	129	250	68	-	447
Finance costs	5	12	2	-	19
Interest Income	5	5	8	-	18
Gain on disposal of property, plant and equipment	-	-	9	-	9
Legal and other professional fees	181	20	34	-	235
Assets					
Segment assets	55,084	817	2,425	-	58,326
Liabilities					
Segment liabilities	27,784	121	229	-	28,134

Segment assets and liabilities are derived after deducting deferred tax assets and liabilities.

14. Segmented revenue and results of business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year (Continued)

Geographical information

Revenue and non-current assets information based on the geographical location of customers are as follows:

	Revenue		Non-current assets	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
<u>Geographical</u>				
Malaysia	31,083	20,316	2,718	2,090
The People's Republic of China	44,117	23,641	7,395	9,771
Taiwan	718	3,895	93	148
Singapore	7,866	10,388	1,022	1,069
Other countries	172	2,491	1	1
	<u>83,956</u>	<u>60,731</u>	<u>11,229</u>	<u>13,079</u>

Non-current assets information presented above are non-current assets as presented on the statement of financial position excluding deferred income tax assets.

15. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the operating segments.

Please refer to Paragraph 8 above for further details.

16. A breakdown of sales

	2018 S\$'000	2017 S\$'000
Sales reported for the first half of the year	28,274	24,767
Profit/(loss) after tax before non-controlling interest reported for the first half year	<u>117</u>	<u>423</u>
Sales reported for the second half of the year	55,682	35,964
(Loss)/profit after tax before non-controlling interest reported for the second half year	<u>(2,374)</u>	<u>805</u>

17. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year.

No dividend has been recommended or declared for the year ended 31 December 2018 and 2017.

18. 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)
Mr Wang Zhi ⁽¹⁾	A refundable deposit of \$1.2 million paid ⁽²⁾	N/A

The Group does not have any IPT general mandate from shareholders pursuant to Rule 920.

Note 1

Mr Wang Zhi hold 29.5% shareholding in the Company and he is also the non executive deputy chairman of the Company.

Note 2

On 5 November 2018, the Company has announced that it has signed a non-binding Letter of Intent with Mr. Wang Zhi, or largely known as Robert Wang in respect of a proposed investment in a Build-Operate-Transfer Gaoyi Domestic Waste Water Treatment Project, which holds a 30-year concession on a Waste Water Treatment Plant.

A refundable deposit of RMB 6 million (approximately \$1.2 million) has been made to Mr. Wang Zhi as part of the purchase consideration for the acquisition of a sewage treatment asset in China.

The acquisition is an "interested person transaction" under Chapter 9 of the SGX Listing Rules and will be subject to shareholders' approval. The Company will convene a shareholders' meeting and issue a circular to shareholders for this purpose in due course.

19. 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.

Name	Age	Family relationship with any director and/or substantial shareholder	Current position and duties, and the year position was held	Details of changes in duties and position held, if any, during the year
Thye Kim Fah	67	Brother of Mr. Thye Kim Meng, Managing Director and Chief Executive Officer of Darco Water Technologies Limited	General Manager of Darco Water Systems Sdn. Bhd. ("DWSSB") responsible for overall management and operation of DWSSB, position held since January 1, 2000	Nil
Thye Ze Pin	36	Nephew of Mr. Thye Kim Meng, Managing Director and Chief Executive Officer of Darco Water Technologies Limited	Team Head, Project Management for Darco Water Technologies Limited; responsible for project management, position held since January 1, 2009	Nil

20. 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 confirms that it has procured undertakings from all its directors and executive officers in the format set out in Appendix 7.7 under Rule 720(1) of the Listing Manual.

BY ORDER OF THE BOARD

Thye Kim Meng
Managing Director and Chief Executive Officer
1 March 2019