BETTER SOLUTIONS TO WATER & WASTE

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

RESPONSES TO SINGAPORE EXCHANGE SECURITIES TRADING LIMITED'S QUERIES ON THE UNAUDITED HALF YEAR RESULTS FOR THE PERIOD ENDED 30 JUNE 2024

The Board of Directors ("**Directors**") of Darco Water Technologies Limited ("**Company**" and together with its subsidiaries, collectively, "**Group**") refers to the Company's unaudited half year results for the period ended 30 June 2024 ("**1H2024**") released on the SGXNET on 13 August 2024. The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 27 August 2024 (each, an "**SGX Query**") as follows:

SGX Query 1:

It is disclosed on page 23 of the unaudited financial statements that, "Revenue from the Projects segment decreased from $33.0 million in 1H2023 to $21.3 million in 1H2024. This was mainly due to the decrease in new projects secured in China and Malaysia amidst intense competition in these markets. In addition, the Group also recorded low concession revenue from its project in Vietnam."

(a) Please disclose the current status of the existing projects under the Group's business, the estimated date of completion of these projects and whether the counterparties are related parties.
(b) Please also explain the reason for the lower concession revenue from the project in Vietnam as compared to June 2023.

Company's response to SGX Query 1:

(a) The Group is actively managing the ongoing projects across various regions, all of which are progressing according to their respective timelines. Each project is at a different stage of development, with some nearing completion and others in various phases of execution, such as planning, design, or construction. The majority of the projects in China and Malaysia are expected to be completed by December 2024, with some extending into 2025. Meanwhile, projects in Singapore are expected to be completed between 2024 to 2030. The counterparties involved in these projects are not related parties, and all contractual agreements have been established on an arm's length basis. The Group remains committed to maintaining rigorous oversight throughout the project timelines.

(b) Service concession revenue

	30 June 2024	**30 June 2023**
	$'000	**$'000**
Service concession revenue	107	3,703

Service concession revenue relates to the project of the Vietnam subsidiary, Darco Ba Lai Water Supply Company Limited ("Ba Lai Project"). Ba Lai Project has commenced its commercial operation on 1 July 2023. The substantial revenue in June 2023 was attributed to the significant progress on Ba Lai Project construction work, including the factory, main piping system and household piping system, which was carried out during the first half of 2023. In the first half of 2024, the service concession revenue was limited to construction of household piping system, which explains the noticeable decline in construction revenue in 2024.

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SGX Query 2:

It is disclosed on page 23 of the unaudited financial statements that, "The increase in finance costs was mainly due to an increase in bank borrowings and interest on other financial liabilities (amount owing to non-controlling interests)."

Please reconcile the above statement with the decrease in borrowings from $5.7m as at 30 June 2023 to $5m as at 30 June 2024.

Company's response to SGX Query 2:

Detail breakdown of finance costs and borrowings:

	Term Loan V	Other Term Loans & Trust Receipts	Bank Overdraft	Total
30 June 2024	**$'000**	**$'000**	**$'000**	**$'000**
Borrowings	2,160	1,682	1,207	5,049
Finance costs	75	59	22	156
30 June 2023				
Borrowings	2,272	1,448	1,990	5,710
Finance costs	12	40	29	81

The increase in interest on bank borrowings, despite lower bank borrowings balance as at 30 June 2024 as compared to 30 June 2023 is primarily attributable to Term loan V (refer to Note 12 of our FY2023 Annual Report). This term loan is a 10-year loan obtained by Ba Lai to finance construction and construction related activities in the Ba Lai Project, a significant portion of the loans were only drawn down in June 2023, resulting in lower interest at that period since it was not calculated for the full six months.

On the other hand, interest on other financial liabilities represents the finance cost associated with other financial liabilities (Note 15) instead of borrowings. As stated in our FY2023 Annual Report, the Company has an obligation to repurchase shares in a subsidiary from the Non-Controlling Interests ("NCI"), InfraCo, as a result of the put option granted to the NCI. When the NCI exercises the put option, the Company is required to repay an amount giving rise annualised yield of 12% compounded daily on its investment amount. Since the Company has not yet exercise the option, interest on other financial liabilities is compounded daily resulting in an increase compared to the previous period.

SGX Query 3:

It is disclosed on page 24 of the unaudited financial statements that, "Contract assets increased mainly due to the higher unbilled work done for projects in China and Singapore."

Please explain what led to the higher unbilled work done for projects as aforementioned.

Company's response to SGX Query 3:

Contract assets saw a significant increase, primarily due to a higher volume of unbilled work. This surge was largely driven by major ongoing projects in China and Singapore, where significant works were completed near the end of the reporting period, with the billings to be issued once certain contractual conditions are fulfilled.

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SGX Query 4:

It is noted that the Company has a net cash outflow from operating activities of $2.445 million and a net profit of$197k for the half year ended 30 June 2024. Please explain why the Company is unable to generate net cash inflow from its operating activities, despite the Company's net profit position for the financial period/year.

Company's response to SGX Query 4:

Despite the Company's net profit position for the financial period, the net cash outflows in trade and other receivables, including contract assets were mainly due to higher unbilled work from subsidiaries in Singapore and China as outlined in Query 3. This was partially offset by cash inflows from the collection in trade receivables.

By Order of the Board

Zhang Zhenpeng
Executive Director and Chief Executive Officer
6 September 2024