

BUILDING
THE FOUNDATIONS FOR A
GREAT FUTURE
ANNUAL REPORT 2020





Established in 1999,
Darco Water Technologies
(the "Group") is principally a
systems integrator involved
in the designing, building,
operating and maintaining of
water management processes
that employ the membrane,
ion exchange and thermal
technologies.

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CORPORATE PROFILE



Established in 1999 and listed on SGX in 2002, Darco Water Technologies Limited is a provider of integrated engineering and knowledge-based water and waste water treatment solutions, and vacuum systems with a global presence in China, Malaysia and Singapore. It is also an Engineering, Procurement, and Construction (“EPC”) player specialising in industrial water treatment.

Besides its strong technology fundamentals, the Group owes its success largely to a sound business model, premium services and solutions, as well as in-depth trade knowledge of its staff. These critical elements are all strategically integrated into the business through its consistent emphasis on efficiency.

Efficiency is one of the Group’s core strengths. To achieve higher business efficiency, the Group aims to produce water systems at the lowest cost per unit of water delivered. Darco Water Technologies pays great attention to the efficiency of its designs to enhance energy and pump efficiency. Moreover, the Group uses control systems that minimise the number of people needed to operate the plant. Furthermore, the Group’s business efficiency is also distinctly displayed in its quality maintenance services.

It derives 10 to 15 percent of its income from long-term maintenance services through the service centres that it had established. These service centres are supported by its trading division, which supplies essential chemicals and other products. The focus on providing exceptional service has helped Darco Water Technologies maintain an excellent record of customer retention with 90 per cent of its customers being repeat customers.

During the year, the Group has re-evaluated the overall business strategy and direction of the Group after taking into the consideration of the current business environment. Thus, the Group has decided to continue to focus its efforts on Environmental Systems and Water Management Services while remains open to considering business opportunities outside the Environmental Systems and Water Management Services industry in the future. Going forward, the Group intends to continue leveraging on such experience and expertise to deliver advanced solutions for water and waste management systems, while pursuing opportunities to generate recurring income from investments in environmental infrastructure.

CHAIRMAN STATEMENT

DEAR SHAREHOLDERS,

On behalf of our Board of Directors, I am pleased to present our annual report for the financial year ended 31 December 2020 ("FY2020").

In FY2020, the COVID-19 pandemic led to an unprecedented global crisis, with many countries implementing restrictive measures to curb the spread of COVID-19. In particular, due to measures imposed in China, Malaysia and Singapore, the Group has experienced delays from suppliers, and face constraints in the workplace owing to the implementation of additional measures. Despite so, the Group delivered a resilient financial performance with revenue of \$78.1 million in FY2020, a 4.4% increase from \$74.8 million in FY2019. This was mainly due to a higher contribution from the Engineered Environmental Systems ("EE Systems") segment, partially offset by a decline in revenue in the Water Management Services ("WM Services") and sales from trading of chemicals, spare parts, and other consumables.

China remains to be the Group's key market with a revenue contribution of \$40.7 million, or 52.2% of the Group's total revenue in FY2020. Malaysia is the second key market of the Group, contributing \$26.1 million, or 33.4% of the Group's revenue. On the back of the increase in margins for Engineering, Procurement, and Construction ("EPC") projects, the Group's gross margin improved 4 percentage points to 17.4% in FY2020. Overall, the Group recorded a net profit of \$1.3 million in FY2020, compared to a net loss of \$11.5 million in FY2019.

PEOPLE'S REPUBLIC OF CHINA

Revenue from China increased from \$30.0 million in FY2019 to \$40.7 million in FY2020, a year-on-year increase of 35.8%. Accounting for 52.2% of the Group's revenue in FY2020, China remains the Group's key market.

The Group has also announced a proposed disposal of 100% of the capital contribution of Darco Remediation Technologies Inc. ("DRT"), a company organised and existing under the laws of the Republic of China. The core business of DRT is in the design and fabrication of water treatment systems as well as the provision of consultancy services in relation to such business and solid waste disposal treatment.

The decision to undertake the disposal of DRT arises from a strategic review of the financial position, operational needs, long-term strategy and direction of the Group, as well as after taking into account the longer-term business prospects of DRT, of which the Company is of the view that it would be beneficial to the Group and its shareholders to dispose of DRT.

DRT was loss-making in FY2018 and FY2019, and is expected to continue to generate losses in the coming financial years. The disposal of DRT will strengthen the balance sheet of the Group and prevent the Group from incurring further losses.

The proposed disposal is ongoing and subjected to the approval by the Investment Commission. The Company will make further announcements on the Proposed Disposal as and when there are material developments.

MALAYSIA

Revenue from Malaysia declined from \$28.3 million in FY2019, to \$26.1 million in FY2020. The operations of the Group's wholly-owned Malaysian subsidiary, Darco Water Systems Sdn. Bhd. ("DWS") was affected by the implementation of Malaysia's movement control order, impacting the Group's financial results for FY2020. The Group has recorded a decline in order books in Malaysia and have seen a sharp decline in industrial projects available for tender in the EPC business. Service and maintenance of water treatment plants in Malaysia has also resulted in a decline in revenue.

CHAIRMAN STATEMENT

SINGAPORE

Revenue from Singapore declined from \$15.1 million in FY2019 to \$10.3 million in FY2020 due to lower contribution from the Group's delivery of projects in Singapore.

The Group's wholly-owned subsidiary, PV Vacuum Engineering Pte. Ltd. ("PV Vacuum") is focused on delivering existing HDB contracts. However, progress has been hampered by the spread of COVID-19 among workers in the dormitories. The introduction of new safe distancing regulations for the construction industry has also increased construction costs and led to a significant slowdown for construction progress, which is expected to affect revenue and margins.

Separately, PV Vacuum has secured S\$4.0 million worth of Preventive Maintenance Contracts and S\$6.87 million worth of EPC project for Districts Pneumatic Waste Conveyance System for various Town Councils. PWCS are mandatory in Singapore for new housing development with at least 500 dwellings since 1 April 2018 and is allowed to be deployed on a district level. It was a move to bring sustainable living into public and private housing estates, and provide a cleaner, greener environment for residents as well as increase the efficiency of waste collection. The Group will continue to focus on securing similar projects, which will allow the Group to generate a recurring income stream.

OUTLOOK

The ongoing pandemic has thrown a curveball at the global economy as many countries adopted drastic restrictive measures to curb the spread of COVID-19.

In the coming months, notwithstanding any material changes to the pandemic situation, the Group expects its business operations in China, Malaysia to remain challenging, which will have an adverse impact on the Group's financial year ending 31 December 2021. The Group will focus on the implementation of the Group's existing orderbook which was secured before the outbreak of COVID-19.

Meanwhile, the Group will continue to look for business opportunities in the EE Systems and WM Services industry by leveraging on our competitive edge and expertise to deliver top notch advanced solutions for water and waste management systems.

In addition, the Group will continue its efforts to diversify sources of revenue and procurement in order to remain resilient in the face of adversity and unexpected challenges. The Group will also monitor the ever-changing pandemic situation and tweak our strategies accordingly.

During the financial year, the Group has also made efforts to raise the standards of corporate governance and compliance, and has also appointed W Capital Markets Pte. Ltd. as its compliance advisor.

CHAIRMAN STATEMENT

WORDS OF APPRECIATION

The Board underwent several changes in FY2020. Mr. Tay Lee Chye Lester and Mr. Tay Von Kian, ceased to be the Lead Independent Director of the Group and Non-Executive Independent Director of the Group respectively. On behalf of the Board, I will like to extend my deepest gratitude to our former directors for their invaluable contributions to the Group.

In another board reshuffle, Ms. Joanna Ong Joo Mien has stepped down as a member of the Nominating Committee, but will remain as Independent Director of the Group, and member of the Audit Committee and Chairman of the Remuneration Committee.

Separately, I will like to welcome Mr. Sim Guan Seng on board, as the Lead Independent Director of the Company, Mr. Kong Chee Keong as an Independent Director of the Company and Mr. Phua Kia Chik, who has joined us as a member of the Investment Committee of the Company. I believe that the addition of new board members and their extensive experience will be highly beneficial to the Group as we chart our way forward in the post-coronavirus world.

Lastly, I will also like to take this opportunity to express our appreciation to our employees for their commitment towards the growth of the Group. To all our shareholders, we will also like to thank you for your steadfast support for the Group. The Board will continue to strive towards sustainable growth and value creation for all our shareholders.

WANG YAORYU
EXECUTIVE CHAIRMAN

BOARD OF DIRECTORS

WANG YAOYU | Chinese, Aged 64 | Executive Chairman

Mr. Wang Yaoyu was appointed as the Executive Director of our Company on 13 September 2016. He is currently the Chairman of Wuhan Kaidi Water Service Company. He is responsible for formulating strategic direction and policy and responsible for the profit and loss of a major subsidiary. Mr. Wang has more than 15 years of experience in the wastewater treatment industry. He was the Executive Director of Asia Water Technology Ltd. and a Director of SIIC Environment Holdings (Wuhan) Co., Ltd.

Mr. Wang graduated from Hefei University of Technology with a Degree in power plant and electric power system in 1982.

WANG ZHI | Singapore Citizen, Aged 56 | Non-Executive Deputy Chairman

Mr. Wang Zhi was appointed to the Board of the Company on 3 April 2018 and he assumed the position of the Non-Executive Deputy Chairman of the Board and as the Chairman of the Investment Committee of the Company.

Wang Zhi, aged 56 is a Singaporean and an engineer by profession. He graduated with a Bachelor Degree from the Chemical Engineering Department of Nanchang Aeronautical Engineering Institute in Nanchang, China.

He is currently the Chairman of Future International Investments Limited, Future International Investment Limited and Future Holdings Group Limited, companies incorporated in Hong Kong and are involved in investment and management of water supply, renewable energy and tourism and ecological agriculture businesses mostly in China.

He has more than 20 years of experience in the business of water and wastewater treatments and water supply. Prior to venturing into his own business, he was the China Chief Representative and General Manager of a company listed on Bursa Malaysia and he was involved in the business development of water and wastewater projects and investments.

POH KOK HONG | Singapore Citizen, Aged 51 | Chief Executive Officer

Mr. Poh Kok Hong was appointed Executive Director and CEO of Darco Water Technologies Ltd on 1 July 2019. Mr. Poh has over 20 years of experience working in military and commercial aviation industry. In the past 10 years, he has worked in various multi-billion dollars multi-national corporations; such as StandardAero, NORDAM and Goodrich. Mr. Poh has extensive regional experience managing business operations in key growth countries in Asia.

Mr. Poh has a Bachelor of Science in Aerospace Engineering and a Master of Science in Aerospace Engineering with Minor in Electrical Engineering from Mississippi State University, USA.

SIM GUAN SENG | Singapore Citizen, Aged 61 | Lead Independent Director

Mr. Sim Guan Seng was appointed as the Lead Independent Director of our Company on 6 July 2020. He is currently the Chairman of the Audit Committee and a member of the Nominating Committee. Prior to this, he was the Managing Partner of Baker Tilly TFW and he is currently the senior Partner of Baker Tilly TFW LLP, a top 10 integrated professional services firm offering audit, tax, advisory, accounting and corporate secretarial services. He is also now holding directorships in Lightway Corporate Services Pte. Ltd., St. James' Preschool Services (Anglican) Ltd, and National Volunteer and Philanthropy Centre.

Mr. Sim has a Bachelor of Accountancy (Hons) from the National University of Singapore. He is also a practicing member of the Institute of Singapore Chartered Accountants and a certified internal auditor (as conferred by the Institute of Internal Auditors).

BOARD OF DIRECTORS

KONG CHEE KEONG | Singapore Citizen, Aged 52 | Independent Director

Mr. Kong Chee Keong was appointed as an Independent Director of our Company on 6 July 2020. He is currently a member of the Remuneration Committee, Audit Committee and Nominating Committee. Mr. Kong has more than 25 years of experience in corporate strategy development, private equity investment and financial accounting, having previously worked with Ernst & Young LLP and the private equity arm of ING Barings. He has been the owner of and played key roles in finance as CFO and corporate management; starting and developing several early stage ventures in renewable energy power plants and the healthcare industry. He is now the Managing Director of a boutique corporate advisory company serving both private and public listed companies in sectors such as healthcare and renewable energy. He managed a portfolio of renewable energy assets and is the joint venture partner of a Euro Stoxx50 multinational renewable energy conglomerate, Engie. He is currently also the independent director of JEP Holdings Limited, where he serves as the Audit Committee Chairman as well.

Chee Keong holds a Master of Business Administration from University of Manchester and a Bachelor of Accountancy (Hons) from the National University of Singapore. He is a full member of the Institute of Singapore Chartered Accountants and member of the Singapore Institute of Directors.

GN JONG YUH GWENDOLYN | Singapore Citizen, Aged 50 | Independent Director

MS. GN JONG YUH GWENDOLYN was appointed as the Independent Director of our Company on 02 May 2019. She is currently the Chairman of the Nominating Committee and a member of the Audit and Remuneration Committee.

Ms. Gn has more than 20 years' experience as a Corporate Lawyer, specialising in corporate finance and capital markets in Singapore and the Asian region. Ms. Gn is currently an Equity Partner in ShookLin & Bok LLP where she actively advises both Main Board and Catalist listed companies, SMEs, MNCs and financial institutions on areas of fund raising, IPOs / RTOs / dual listings, mergers and acquisitions, corporate structuring and corporate governance. Ms. Gn graduated with LLB Hons (Second Upper) from the National University of Singapore in 1994 and was called to the Singapore bar as an Advocate and Solicitor in 1995. Ms. Gn is a winner of the International Law Office and Lexology Client Choice Award 2014 in Singapore for Capital Markets and has been recognised as a leading capital markets and corporate finance lawyer in Asialaw Leading Lawyers. She has been named as an expert in Euromoney's Guide to the World's Leading Women in Business Law and World's Leading Capital Markets Lawyers.

JOANNA ONG JOO MIEN | Singapore Citizen, Aged 56 | Independent Director

Mdm. Joanna Ong Joo Mien was appointed as an Independent Director of our Company on 2nd May 2019. She is currently the Chair of the Remuneration Committee and a member of the Audit Committee. Mdm. Ong has more than 25 years of experience in accounting and financial management.

Joanna is currently the Director of J.Ong Business Services, a corporate services consulting firm, which specialises in providing finance services and management strategy to SMEs in Singapore.

Prior to establishing her consultancy firm, Joanna was the Vice-President of Finance under the consumer market group in StarHub Limited (listed in SGX-ST).

Prior to StarHub, she has worked for more than 10 years with Singapore Cable Vision Ltd. She started her career with Price Waterhouse CPA before joining Singapore CableVision Ltd.

Joanna has a Bachelor of Accountancy from the National University of Singapore. She is a member of both the Institute of Singapore Chartered Accountants (ISCA) and Singapore Institute of Directors.

She is currently an Independent director and chair of the audit committee at Asian Pay Television Trust (a listed business trust in SGX-ST).



KEY MANAGEMENT

ZHAO YONG CHANG | Singapore Citizen, Aged 54 | Chief Operating Officer

Mr. Zhao Yong Chang is a veteran in the water and environmental business. During his 30 years professional experience, he was involved in the proposal, design, construction, commissioning and operation of various projects and plants. As Chief Operating Officer, Mr Zhao is responsible for supervising the group's operation in terms of project sales and execution. Mr Zhao also takes the lead in the development of new investment projects for the Group. In addition, he assists the CEO in the formation of Group's policies.

Mr. Zhao holds a Bachelor's degree from Tsinghua University and a Master's degree from National University of Singapore. Mr. Zhao contributes to the steady growth of the Group by leveraging on his extensive networks in China, Singapore and other ASEAN countries.

TEH CHUN SEM | Aged 34 | Financial Controller

Mr. Teh Chun Sem was appointed as the Financial Controller on 31 May 2016. He is responsible for overseeing the Group's financial, account matters and risk function. Mr. Teh has approximately 8 years of working experience in the audit industry serving various clients from diverse industries including trading, engineering, education and manufacturing. Prior to joining Darco, he was a Audit Assistant Manager at BDO LLP.

Mr. Teh holds the ACCA Professional Qualification with the Association of Chartered Certified Accountants of the United Kingdom. He is a non-practising member of the Institute of Singapore Chartered Accountants and a member of the Association of Chartered Certified Accountants.



OPERATIONS REVIEW

INCOME STATEMENT REVIEW

Revenue increased 4.4% year-on-year (“yoy”) from \$74.8 million in FY2019 to \$78.1 million in FY2020.

SEGMENTAL CONTRIBUTION

Revenue from the EE Systems segment increased from \$53.7 million in FY2019 to \$61.6 million in FY2020 mainly due to higher contribution from the Engineering, Procurement, and Construction (“EPC”) projects in China and Malaysia.

Revenue from the WM Services segment decreased from \$8.3 million in FY2019 to \$6.9 million in FY2020 mainly due to lower contribution from Malaysia. The revenue from Malaysia’s WM Service segment has dropped from \$7.2 million in FY2019 to \$5.9 million in FY2020 due to the Movement Control Order (“MCO”) measures implemented by the Malaysian Government as a response to the COVID-19 pandemic.

Sales from trading of chemicals, spare parts, and other consumables decreased from \$12.8 million in FY2019 to \$9.5 million in FY2020 due to the slowdown in customers’ production activities amidst the COVID-19 pandemic in Malaysia.

GEOGRAPHICAL CONTRIBUTION

Malaysia, China and Singapore are the main markets of the Group which contributed 98.7% of the total Group’s revenue. The Group’s overall gross profit increased from \$10.0 million in FY2019 to \$13.6 million in FY2020. Overall gross profit (“GP”) margin has increased from 13.4% in FY2019 to 17.4% in FY2020; the increase in GP margin is mainly due to the increase in EPC Project margin.

The Group’s other income increased from \$0.5 million in FY2019 to \$1.9 million in FY2020. This is mainly due to the increase in government grant income from \$0.2 million in FY2019 to \$1.4 million in FY2020.

The Group’s marketing and distribution expenses decreased

from \$1.7 million in FY2019 to \$1.1 million in FY2020 mainly due to lower travelling costs during the COVID-19 pandemic.

Administrative expenses comprising of staff salary, professional fees, depreciation, and other operating expenses decreased from \$16.3 million in FY2019 to \$12.5 million in FY2020, mainly due to the one-off impairment of intangible assets amounting to \$2.9 million in FY2019 and decrease in amortisation of intangible assets from \$1.7 million in FY2019 to \$0.2 million in FY2020.

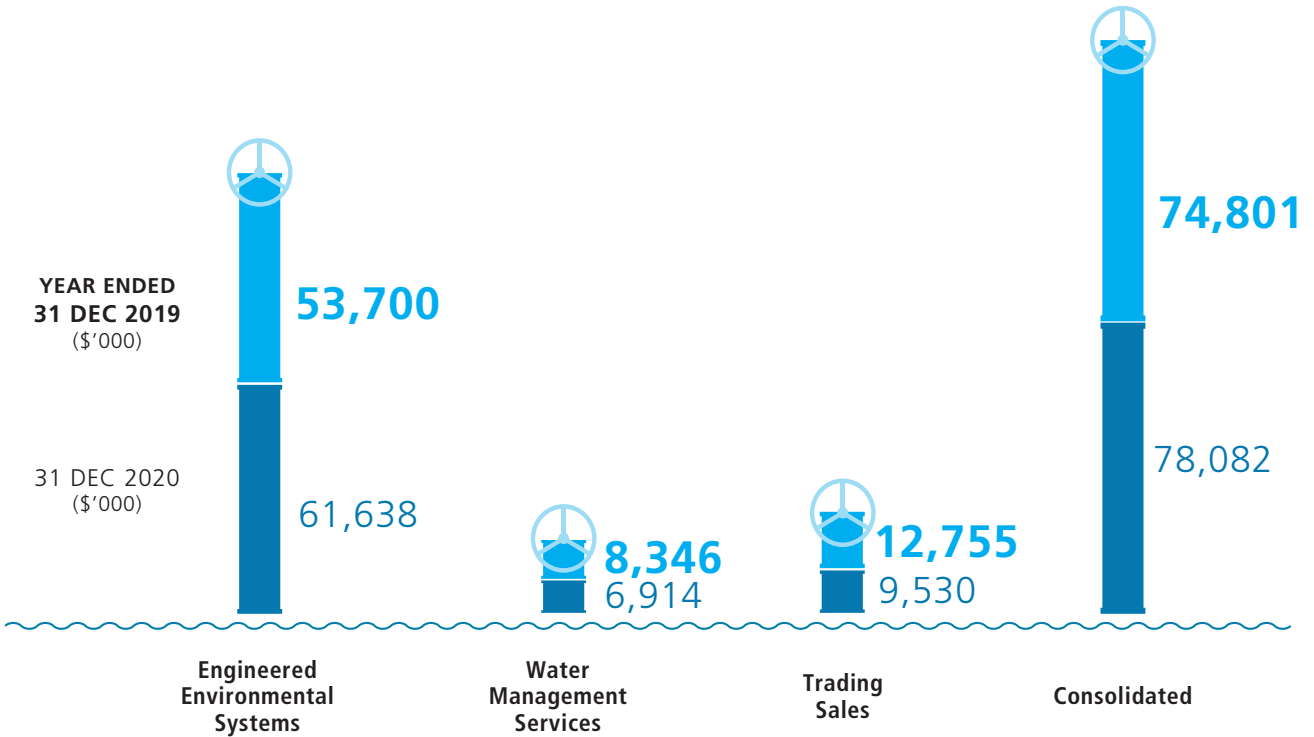
Impairment loss on financial assets has reduced significantly from \$3.8 million in FY2019 to reversal of impairment of \$0.2 million in FY2020. This is mainly due to lower outstanding receivables in Year 2020; therefore, a lesser impairment loss is required in FY2020.

As a result of the above, the Group registered a net profit of \$1.3 million in FY2020, as compared to a net loss of \$11.5 million in FY2019. Current assets of \$82.3 million as at 31 December 2020 mainly comprised of trade and other receivables of \$61.2 million, inventories of \$1.8 million, income tax recoverable of \$0.3 million and cash and bank balances of \$19.0 million. Non-current assets of \$9.6 million as at 31 December 2020 largely comprised of intangible assets of \$0.9 million, property, plant and equipment of \$6.1 million, rights-of-use assets of \$0.9 million, other receivables of \$1.3 million and deferred income tax assets of \$0.4 million. Current liabilities of \$45.6 million as at 31 December 2020 comprised of trade and other payables of \$39.5 million, borrowings of \$5.4 million, lease liabilities \$0.3 million and income tax payable of \$0.4 million. Non-current liabilities of \$1.5 million as at 31 December 2020 comprised mainly lease liabilities of \$0.5 million and borrowings of \$1.0 million.

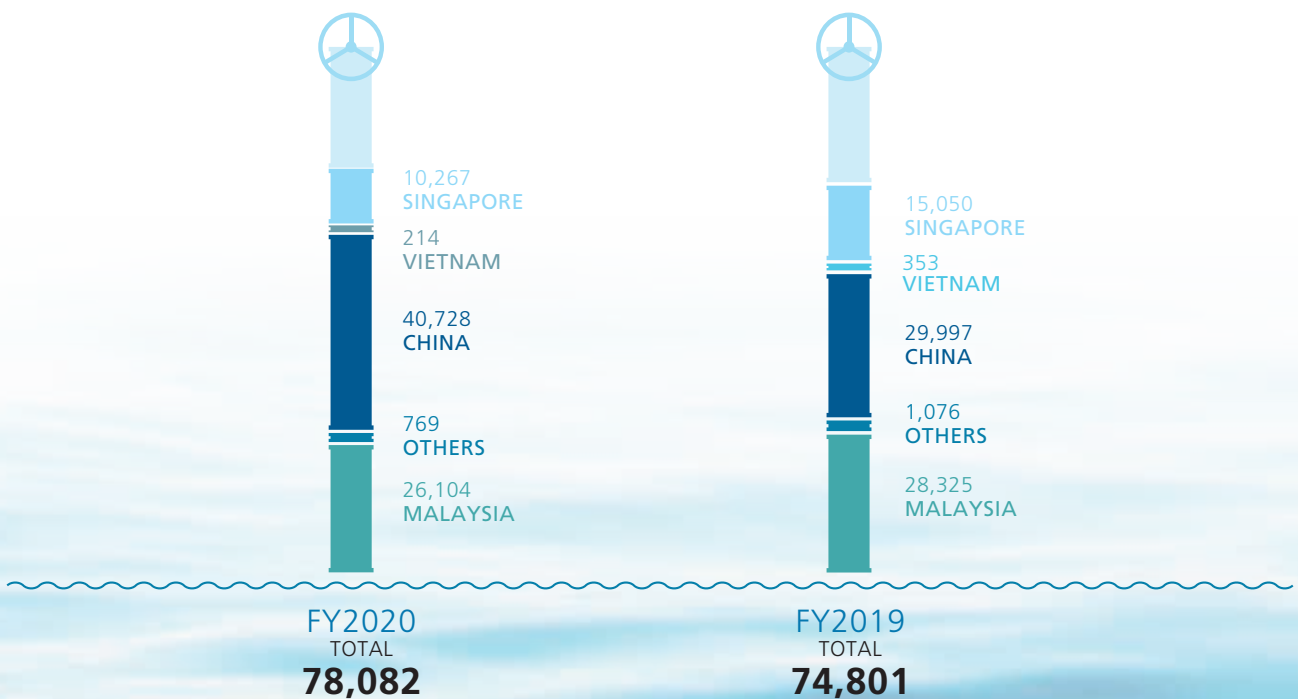
Shareholders’ equity increased from \$43.1 million in FY2019 to \$44.9 million in FY2020. Net cash used in operating activities was \$0.5 million in FY2020, compared to cash outflow of \$1.5 million in FY2019. Net cash used in investing activities was \$0.5 million in FY2020, compared to cash outflow of \$3.6 million in FY2019. Net cash used in financing activities was \$6.5 million in FY2020, while the Group has a net cash inflow of \$2.8 million from financing activities in FY2019. The Group cash and cash equivalents as at 31 December 2020 stands at \$12.9 million.

OPERATIONS REVIEW

SEGMENTAL REVENUE CONTRIBUTION



GEOGRAPHICAL REVENUE CONTRIBUTION (\$'000)





GROUP STRUCTURE

AS AT 31 DECEMBER 2020



SOLUTIONS TO WATER & WASTE

DARCO WATER TECHNOLOGIES LIMITED ("DWT")



CORPORATE INFORMATION

BOARD OF DIRECTORS

WANG YAOYU
(Executive Chairman)

WANG ZHI
(Non-Executive Deputy Chairman)

POH KOK HONG
(Chief Executive Officer)

SIM GUAN SENG
(Non-Executive Lead Independent Director)

KONG CHEE KEONG
(Non-Executive Independent Director)

GN JONG YUH GWENDOLYN
(Non-Executive Independent Director)

JOANNA ONG JOO MIEN
(Non-Executive Independent Director)

AUDIT COMMITTEE

SIM GUAN SENG
(Chairman)

KONG CHEE KEONG

GN JONG YUH GWENDOLYN

ONG JOO MIEN JOANNA

NOMINATING COMMITTEE

GN JONG YUH GWENDOLYN
(Chairman)

SIM GUAN SENG

KONG CHEE KEONG

WANG ZHI

REMUNERATION COMMITTEE

ONG JOO MIEN JOANNA
(Chairman)

KONG CHEE KEONG

WANG ZHI

GN JONG YUH GWENDOLYN

COMPANY SECRETARY

JOEL TAN WEI JIE

REGISTERED OFFICE

Harvest @ Woodlands
280 Woodlands Industrial Park E5 #09-36,
Singapore 757322

REGISTRAR AND SHARE TRANSFER OFFICE

Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623

AUDITORS

Crowe Horwath First Trust LLP
Public Accountants and Chartered Accountants
Singapore
9 Raffles Place
#19-20, Republic Plaza Tower 2
Singapore 048619

Partner-in-charge: Kow Wei-Jue Duncan
(appointment effective from financial year ended
31 December 2019)

OUR REGIONAL PRESENCE





OUR MISSION

To be the water company of choice by providing customer driven multi-technology solutions.

To design and manufacture a wide range of high performance water and wastewater systems and provide services of highest quality at affordable prices.

CORPORATE GOVERNANCE REPORT

The Board of Directors (the “**Board**” or the “**Directors**”) and the management (the “**Management**”) of Darco Water Technologies Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) are strongly committed to maintaining a high level of corporate governance which is essential to the protection of interests of shareholders of the Company (“**Shareholders**”) and enhancing long-term Shareholder value and returns.

The Monetary Authority of Singapore (“**MAS**”) issued the revised Code of Corporate Governance on 6 August 2018 (the “**2018 Code**”) and the 2018 Code applies to annual reports covering financial years with effect from 1 January 2019. The Listing Manual of the Singapore Exchange Securities Trading Limited (the “**SGX-ST Listing Manual**”) require listed companies to describe in its annual report its corporate governance practices with specific reference to the principles and the provisions of the 2018 Code. Where the practices of a listed company vary from any provisions of the 2018 Code, it must explicitly state, in its annual report, the provision from which it has varied, explain the reason for variation, and explain how the practices it had adopted are consistent with the intent of the relevant principle.

This report outlines the Company’s corporate governance framework in place throughout the financial year ended 31 December 2020 (“**FY2020**”) with specific references made to each of the principles and the accompanying provisions to each principles of the 2018 Code and the relevant Practice Guidance of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) (the “**Practice Guidance**”). The Company has complied with the principles set out in the 2018 Code. Where there are deviations, appropriate explanations have been set out on how our practices are consistent with the aim and philosophy of the principle in question.

PRINCIPLE 1: THE BOARD’S CONDUCT OF AFFAIRS

The Company is headed by an effective Board which is collectively responsible and works with Management for the long-term success of the company.

The Board is collectively responsible for providing overall strategy and direction to the Management and the Group. The Board’s key responsibilities include providing entrepreneurial leadership and supervision to the Management of the Company and the Group with a view to protect shareholders’ interests, enhance long-term shareholders’ value, safeguard the Company’s assets, and achieve long-term success of the Company and the Group. Principle 1

The Board’s principal responsibilities are to:

- (a) Guide the formulation of the Group’s overall long-term strategic objectives and directions through entrepreneurial leadership, including setting the Group’s policies and strategic plans and monitor achievement of these corporate objectives;
- (b) Establish goals for management and monitor the achievement of these goals;
- (c) Ensure management leadership of high quality, effectiveness and integrity;
- (d) Review internal controls, risk management, financial performance and reporting compliance; and
- (e) To set the Company’s values and standards (including ethical standards).

CORPORATE GOVERNANCE REPORT

All Directors act objectively and discharge their duties and responsibilities at all times as fiduciaries and make decisions in the best interests of the Company and hold Management accountable for performance. The Board has put in place a code of conduct and ethics, which set out a code of conduct and ethical standards for Directors and staff to adhere to, and sets appropriate tone-from-the-top and desired organisational culture, and ensures proper accountability within the Company. Directors who face a conflict of interest recuse themselves from discussions and decisions involving the issues of conflict. Provision 1.1

In FY2020, the Company has updated the Board on relevant new laws and regulations affecting the Company. From time to time, and through Board meetings and other meetings, both formal and informal, our Chief Executive Officer (“**CEO**”) has been advising our Directors of the changing commercial and business risks faced by our Company. Provision 1.2

The Directors are also updated regularly with changes to the Listing Rules, risk management, corporate governance, insider trading and the key changes in the relevant regulatory requirements and financial reporting standards and the relevant laws and regulations to facilitate effective discharge of their fiduciary duties as Board or Board Committees members.

New releases issued by the SGX-ST and Accounting and Corporate Regulatory Authority (“**ACRA**”) which are relevant to the Directors are circulated to the Board by the Management.

For FY2020:–

- (i) The Directors are informed of upcoming conferences, seminars, and training programs relevant to their roles as Directors of the Company; and
- (ii) The external auditors updated the Audit Committee (“**AC**”) and the Board on the new and revised financial reporting standards that are applicable to the Company and/or the Group.

The Directors are encouraged to attend seminars and receive training to improve themselves in the discharge of Directors’ duties and responsibilities. Changes to regulations and accounting standards are monitored closely by the Management. To keep pace with such regulatory changes, the Company provides opportunities for ongoing education and training on Board processes and best practices as well as updates on changes in legislation and financial reporting standards, regulations and guidelines from the Listing Rules that affect the Company and/or the Directors in discharging their duties. Such training costs are borne by the Company.

All new Directors shall be provided with background information about the Group’s history and core values and industry-specific knowledge. Appropriate briefing and orientation will be arranged for newly appointed Directors to familiarise them with the Group’s business operations, strategic directions, Directors’ duties and responsibilities and the corporate governance practices. They will also be given opportunities to visit the Group’s operational facilities and meet the Management so as to gain a better understanding of the Group’s business. Rule 210(5)(a)

In addition to the above, the Company has arrangements in place for newly appointed Directors with no prior experience as a director of a listed company on the SGX-ST to undergo training in the roles and responsibilities of a director of a listed company on the SGX-ST as prescribed by the SGX-ST. If the Nominating Committee (“**NC**”) is of the view that training is not required because the Director has other relevant experience, the basis of the NC’s assessment will be disclosed.

CORPORATE GOVERNANCE REPORT

Mr. Sim Guan Seng was appointed as a Director of the Company on 6 July 2020. Mr. Sim Guan Seng is required to undergo training in the roles and responsibilities of a director of a listed company on the SGX-ST as prescribed by the SGX-ST as he had no prior experience as a director of a listed company on the SGX-ST. Mr. Sim Guan Seng has attended the prescribed courses and trainings by SGX-ST during the Year 2020.

The Company will provide a formal letter to newly appointed Directors upon their appointment explaining their statutory duties and responsibilities as Directors.

The Board has first adopted the Group Charter in FY2003 and the Group Charter is subject to continuous updates and review by the Board. The Group Charter sets out the Group's internal guidelines for material contracts and investments exceeding specified amounts. This Group Charter also forms part of our Group's risk management process, which ensures that all contracts entered into, and investments made by the Group, of a material contract sum are approved by the appropriate levels of Management, up to the Board level. Provision 1.3

The Board has adopted a set of internal guidelines setting forth matters that require Board approval, and these internal guidelines have been clearly communicated to the Management in writing. The Board has identified the following areas for which the Board has direct responsibility for decision making within the Group:

- (i) Approval of the Group's major investments/divestments and funding decisions;
- (ii) Approval of the Group's half-year and full-year financial result announcements for release to the SGX-ST;
- (iii) Approval of any agreement which is not in the ordinary course of business;
- (iv) Approval of any major borrowings or corporate guarantees in relation to borrowings;
- (v) Entering into any profit-sharing arrangement;
- (vi) Entering into any foreign exchange hedging transactions;
- (vii) Incorporation or dissolution of any subsidiary;
- (viii) Issuance of shares or declaration of dividends;
- (ix) Approval of material interested person transactions;
- (x) Approval of the annual report and audited financial statements;
- (xi) Convening of general meetings;
- (xii) Approval of corporate strategies;
- (xiii) Approval of material acquisitions and disposal of assets; and
- (xiv) Approval of announcements or press releases concerning the Group for release to the SGX-ST.

CORPORATE GOVERNANCE REPORT

To assist the Board in the execution of its responsibilities, the Board is supported by three (3) key board committees namely AC, NC, and Remuneration Committee (“**RC**”) (collectively, “**Board Committees**”), which are delegated with specific responsibilities. The Board Committees operate within clearly defined written terms of reference setting out their compositions, authorities and duties, including reporting back to the Board. The Board Committees play an important role in ensuring good corporate governance in the Company and within the Group. The written terms of reference of the Board Committees are reviewed on a regular basis to ensure their continued relevance.

Provision 1.4

Listing Rule
210(5)(e)

Details of the other Board Committees are as set out below:

- (i) Nominating Committee (Principle 4);
- (ii) Remuneration Committee (Principle 6); and
- (iii) Audit Committee (Principle 10).

Additionally, the Board is supported by an Investment Committee (“**IC**”), which comprises the following members:

Investment Committee

The IC comprises of Mr. Wang Zhi, Mr. Zhao Yong Chang, Mr. Phua Kia Chik and Mr. Teh Chun Sem.

Mr. Wang Zhi will be retiring and stepping down as the Chairman of Investment Committee at the forthcoming AGM of the Company.

The IC operates within clearly defined written terms of reference setting out its compositions, authorities and duties. The key role of the IC is to assist the Board in discharging its responsibility in relation to investment-related matters as described in its written terms of reference, including advising and/or making recommendations to the Board on investment management related matters (or sub-delegating all or part of its authority to other competent bodies and/or management members of the Company). All material and significant matters are reported to the Board by the IC.

The Board and Board Committees will meet as and when required to approve matters relating to announcements of, among others, financial results, annual report, material acquisitions and disposals of assets.

Provision 1.5

At the meetings of the Board and Board Committees, the Directors actively participate and are free to discuss and openly challenge the views presented by the Management and the other Directors. The decision making process is an objective one.

The Board conducts meetings at least twice annually. In lieu of physical meetings, written resolutions were also circulated for approval by the members of the Board. Meetings via telephone conference are permitted by the Company’s Constitution.

CORPORATE GOVERNANCE REPORT

The attendances of the Directors at the formal Board meetings and Board Committee meetings held during FY2020, with the Company Secretary in attendance, are as follows:

Name of Director	Board		Board Committees							
			Audit Committee		Nominating Committee		Remuneration Committee		Investment Committee ("IC")	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Wang Yaoyu	7	5	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Wang Zhi ⁽¹⁾	7	4	N.A.	N.A.	1	0	1	0	0	0
Poh Kok Hong	7	7	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Gn Jong Yuh Gwendolyn	7	7	5	5	1	1	1	1	N.A.	N.A.
Ong Joo Mien Joanna	7	6	5	5	1	1	1	1	N.A.	N.A.
Sim Guan Seng ⁽²⁾	7	1	5	2	1	0	1	0	N.A.	N.A.
Kong Chee Keong ⁽³⁾	7	1	5	2	1	0	1	0	N.A.	N.A.
Tay Lee Chye Lester ⁽⁴⁾	7	5	5	3	1	1	1	1	N.A.	N.A.
Tay Von Kian ⁽⁵⁾	7	5	5	3	N.A.	N.A.	1	1	N.A.	N.A.

Notes:

- (1) Mr. Wang Zhi will be retiring, and will not be seeking re-election, as Non-Executive Deputy Chairman and Non-Executive Director at the forthcoming AGM of the Company.
- (2) Mr. Sim Guan Seng was appointed as Non-Executive Independent Directors with effect from 6 July 2020
- (3) Mr. Kong Chee Keong was appointed as Non-Executive Independent Director with effect from 6 July 2020
- (4) Mr. Tay Lee Chye Lester retired as Lead Independent Director of the Company at its Annual General Meeting held on 26 June 2020
- (5) Mr. Tay Von Kian retired as a Non-Executive Independent Director of the Company at its Annual General Meeting held on 26 June 2020

Directors with multiple board representations ensure that sufficient time and attention are given to the affairs of the Company.

Board and Board Committee papers are prepared for each Board and Board Committee meeting respectively and furnished to the Board and Board Committees respectively prior to any Board or Board Committee meeting. The Board and Board Committee papers are issued in sufficient time to enable the Directors to obtain additional information or explanations from the Management, if necessary. The Board and Board Committee papers include minutes of the previous meetings, financial results announcements, reports from the internal auditors and external auditors, reports from the Board Committees, and related materials, background or explanatory information relating to the matters to be raised at Board and Board Committee meetings. Provision 1.6

The Directors are regularly updated by the Management on the developments within the Group and are supplied with such other information so that they are equipped to participate fully at Board and Board Committee meetings.

CORPORATE GOVERNANCE REPORT

The members of the Board have separate and independent access to the Management and the Company Secretary and are provided with adequate background information prior to Board and Board Committee meetings. The Management has taken a pro-active approach of informing the Directors on a timely basis of important corporate actions to be taken by the Company and events that will affect the Company, even if such developments may not require the approval of the Board. Provision 1.7

The appointment and removal of the Company Secretary is a matter for the Board to decide as a whole. The Company Secretary or his or her representative administers, attends and prepares minutes of the Board and Board Committees meetings and assists the Chairman of the Board and/or the AC, NC and RC in ensuring proper procedures at such meetings are followed and reviewed so that the Board and the Board Committees function effectively.

The members of the Board may seek the advice of independent professional advisers, the cost of which will be borne by the Company.

PRINCIPLE 2: BOARD COMPOSITION AND GUIDANCE

The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.

Following the changes in the composition of the Board with effect from 3 July 2020, and as at the date of this Corporate Governance Report, the Board comprises two (2) Executive Directors, one (1) Non-Executive Non-Independent Director, and four (4) Non-Executive Independent Directors. Presently, there is a strong and independent element on the Board with the Non-Executive Independent Directors making up a majority of the Board. Together, the Directors bring a wide range of business and financial experience relevant to the Group. Principle 2

Name of Directors	Board	Date of First Appointment	Date of Last Re-Election	AC	NC	RC	IC
Wang Yaoyu	Executive Chairman	13 September 2016	26 June 2020	–	–	–	–
Wang Zhi ⁽¹⁾	Non-Executive Deputy Chairman	3 April 2018	26 June 2020	–	Member	Member	Chairman
Poh Kok Hong	Executive Director and Chief Executive Officer	1 July 2019	26 June 2020	–	–	–	–
Gn Jong Yuh Gwendolyn	Non-Executive Independent Director	2 May 2019	26 June 2020	Member	Chairman	Member	–
Ong Joo Mien Joanna	Non-Executive Independent Director	2 May 2019	26 June 2020	Member	–	Chairman	–
Sim Guan Seng ⁽²⁾	Lead Independent Director	6 July 2020	–	Chairman	Member	–	–

Listing Rule 1207 (10B)

CORPORATE GOVERNANCE REPORT

Name of Directors	Board	Date of First Appointment	Date of Last Re-Election	AC	NC	RC	IC
Kong Chee Keong ⁽³⁾	Non-Executive Independent Director	6 July 2020	–	Member	Member	Member	–
Tay Lee Chye Lester ⁽⁴⁾	Lead Independent Director	23 April 2015	25 April 2019	Chairman	Member	Member	–
Tay Von Kian ⁽⁵⁾	Non-Executive Independent Director	14 August 2015	25 April 2019	Member	–	Member	–

Notes:

- (1) Mr. Wang Zhi will be retiring, and will not be seeking re-election, as Non-Executive Deputy Chairman and Non-Executive Director at the forthcoming AGM of the Company.
- (2) Mr. Sim Guan Seng was appointed as Non-Executive Independent Directors with effect from 6 July 2020
- (3) Mr. Kong Chee Keong was appointed as Non-Executive Independent Director with effect from 6 July 2020
- (4) Mr. Tay Lee Chye Lester retired as Lead Independent Director of the Company at its Annual General Meeting held on 26 June 2020
- (5) Mr. Tay Von Kian retired as a Non-Executive Independent Director of the Company at its Annual General Meeting held on 26 June 2020

Mr. Wang Yaoyu, the Company's Executive Chairman, is part of the Management team and is not considered independent. Accordingly, Non-Executive Independent Directors make up a majority of the Board.

Provision 2.2
Provision 2.3

The Board, taking into account the views of the NC, determines on an annual basis the independence of each Non-Executive Independent Director based on the guidelines provided in the 2018 Code, such as one who is independent in conduct, character and judgement, and has no relationship with the Company, its related corporations, its substantial shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement in the best interests of the Company.

Provision 2.1

In determining the independence of each Non-Executive Independent Director, the Board and the NC also consider the new Rules 210(5)(d)(i) and (ii) of the Listing Manual, which took effect on 1 January 2019. Pursuant to Rules 210(5)(d)(i) and (ii) of the Listing Manual, the Board and the NC consider that a director is not independent under any of the following circumstances:

- (i) If he is employed by the Company or any of its related corporations for the current or any of the past three (3) financial years; and
- (ii) If he has an immediate family member who is employed or has been employed by the Company or any of its related corporations for the past three (3) financial years, and whose remuneration is determined by the Remuneration Committee of the Company.

CORPORATE GOVERNANCE REPORT

The NC has reviewed and determined that the Non-Executive Independent Directors, namely Mr. Sim Guan Seng, Mr. Kong Chee Keong, Ms. Gn Jong Yuh Gwendolyn, and Ms. Ong Joo Mien Joanna are independent and in accordance with the 2018 Code and the Listing Rules and are able to exercise independent judgement.

The Non-Executive Independent Directors have confirmed that they do not have any relationship with the Company, its related corporations, its substantial shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement in the best interests of the Company.

There is no Non-Executive Independent Director who has served on the Board beyond nine (9) years from the date of his first appointment.

The Non-Executive Independent Directors participate actively during Board meetings. The Company has benefited from the Management's access to its Directors for guidance and exchange of views both within and outside of the meetings of the Board and Board Committees. The Non-Executive Independent Directors communicate amongst themselves and have direct access to the Company's auditors and Senior Management.

Non-Executive Director and Non-Executive Independent Directors exercise no management functions in the Group. Although all the Directors have equal responsibility for the performance of the Group, the role of the Non-Executive Director and Non-Executive Independent Directors is particularly important in ensuring that the strategies proposed by the Management are fully disclosed and rigorously examined and take into account the long-term interests, not only of the shareholders, but also of the employees, customers, suppliers and the communities in which the Group conducts its business. The Non-Executive Director and Non-Executive Independent Directors are also involved in reviewing the performance of Management against agreed goals and objectives. The NC considers the Non-Executive Director and Non-Executive Independent Directors to be of sufficient calibre and their views to be of sufficient weight such that no individual or small group of individuals dominates the Board's decision-making process.

Non-Executive Independent Directors exercise no management functions in the Group. The role of the Non-Executive Independent Directors is particularly important in ensuring that the strategies proposed by the Management are fully discussed and rigorously examined and monitoring the reporting of performance.

The NC has reviewed the size and composition of the Board. The NC and the Board is of the opinion that the current size and composition of the Board is appropriate for decision making, taking into account the scope and nature of the Group's operations. There are no Directors who are deemed independent, notwithstanding the existence of a relationship as stated in the 2018 Code that would otherwise deem him not to be independent. Provision 2.4

The Board's policy in identifying director nominees is primarily to have an appropriate balance and mix of members with complementary skills, knowledge, experience and core competencies for the Group. The Board also has regard to other aspects of diversity such as gender and age, so as to avoid groupthink and foster constructive debate.

CORPORATE GOVERNANCE REPORT

The Company has adopted a Board Diversity Policy which recognises that a diverse Board will enhance the decision-making process by utilising the variety in skills, industry and business experiences, gender and other distinguishing qualities of the members of the Board. Diversity will be considered in determining the optimum composition of the Board so that, as a whole, it reflects a range of different perspectives, complementary skills and experiences, which is likely to result in better decision making and allow the Board members to better identify possible risks, raise challenging questions, and contribute to problem-solving. In accordance with the Board Diversity Policy, the NC will review the relevant objectives for promoting and achieving diversity on the Board, the progress made, and make recommendations for approval by the Board. NC will review this policy from time to time as appropriate and the progress made.

The NC will, in reviewing and assessing the composition of the Board and recommending the appointment of new Directors to the Board, consider candidates on merit against the objective criteria set and with due regards for the benefits of diversity on the Board.

The Board members provide a range of core competencies in accounting, finance, business management experience and industry knowledge that provide effective governance and stewardship for the Group.

The current Board composition provides a diversity of skills, experience and knowledge to the Company as follows:

	Number of Directors
Core Competencies	
– Accounting and/or finance	3
– Relevant industry knowledge or experience	3
– Legal	1
Gender	
– Male	5
– Female	2

To facilitate open discussions and the review of the performance and effectiveness of Management, the Non-Executive Directors and the Non-Executive Independent Directors meet regularly without the presence of Management. The chairman of such meetings provides feedback to the Board and/or the Executive Chairman, as appropriate.

Provision 2.5

CORPORATE GOVERNANCE REPORT

PRINCIPLE 3: CHAIRMAN AND CHIEF EXECUTIVE OFFICER

There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision-making.

There is a clear division of responsibilities between the leadership of the Board and the Management, and no one individual has unfettered powers of decision-making. Principle 3

The Executive Chairman and the Chief Executive Officer (“CEO”) of the Company are separate persons. Mr. Wang Yaoyu is the Executive Chairman, while Mr. Poh Kok Hong is an Executive Director and CEO. This ensures that there is an appropriate balance of power between the Executive Chairman and the CEO and thereby allows for increased accountability and greater capacity of the Board for independent decision making. Provision 3.1

The Board has clearly established and set out in writing the division of responsibilities between the Executive Chairman and the CEO. The responsibilities of the Executive Chairman include: Provision 3.2

- (i) Ensuring that Directors receive accurate, timely and clear information, and ensuring effective communication with shareholders;
- (ii) Ensuring the Group’s compliance with the 2018 Code; and
- (iii) Acting in the best interests of the Group and shareholders.

The Company is in compliance with the Provision 3.3 of the 2018 Code where the Board had appointed Mr. Sim Guan Seng as the Lead Independent Director on 6 July 2020 to co-ordinate and to lead the Non-Executive Independent Directors to provide a non-executive perspective and contribute to a balance of viewpoints on the Board. He is the main liaison on Board issues between the Non-Executive Independent Directors and the Chairman. Provision 3.3

The Lead Independent Director is available to shareholders where they have concerns and for which contact through the normal channels of communication with the Chairman or Management are inappropriate or inadequate.

When necessary, the Company co-ordinates informal meetings for Non-Executive Independent Directors and Non-Executive Director to meet without the presence of the Executive Directors and/or the Management to discuss matters such as the Group’s financial performance, corporate governance initiatives, Board processes, succession planning as well as leadership development and the remuneration of the Executive Directors. Led by the Lead Independent Director, the Non-Executive Independent Directors and Non-Executive Director meet amongst themselves without the presence of the other Directors where necessary and the Lead Independent Director will provide feedback to the Chairman after such meetings.

CORPORATE GOVERNANCE REPORT

PRINCIPLE 4: BOARD MEMBERSHIP

The Board has a formal and transparent process for the appointment and re-appointment of directors, taking into account the need for progressive renewal of the Board.

As at the date of this Corporate Governance Report, the NC comprises of four (4) Directors, of which three (3) are Non-Executive Independent Directors: Provision 4.2

Nominating Committee

Ms. Gn Jong Yuh Gwendolyn (Chairman)
Mr. Sim Guan Seng (Lead Independent Director)
Mr. Kong Chee Keong (Member)
Mr. Wang Zhi (Member)

In accordance with Provision 4.2 of the Code, the Lead Independent Director, Mr. Sim Guan Seng, is a member of the NC.

The Board has established written terms of reference for the NC which clearly set out the authority and duties of the NC.

The principal functions of the NC include, inter alia, the following matters:

Provision 4.1

- (i) Reviewing and making recommendations to the Board on succession plans for Directors, in particular the appointment and/or replacement of the Chairman, the CEO and key management personnel;
- (ii) Reviewing and making recommendations to the Board on the process and criteria for evaluation of the performance of the Board, its Board Committees and Directors;
- (iii) Reviewing and making recommendations to the Board on the training and professional development programmes for the Board and its Directors;
- (iv) Reviewing and making recommendations to the Board on the appointment and re-appointment of Directors (including alternate directors, if any);
- (v) Reviewing on an annual basis the terms of reference of the NC, the composition of the NC and the size of the Board with a view to determining the impact of the number upon effectiveness;
- (vi) Reviewing on an annual basis the required expertise of the Directors to ensure that the Directors have the adequate relevant competencies to discharge their respective functions, and to ensure that there is balance in competencies;
- (vii) Assessing the effectiveness of the Board as a whole; and
- (viii) Determining annually, and as and when circumstances require, the independence of Directors.

The Board periodically reviews the composition of the Board and Board Committees, taking into account the need for progressive renewal of the Board and each Director's competencies, commitment, contribution and performance.

CORPORATE GOVERNANCE REPORT

The NC will, at least once every year, review and thereafter, make recommendations to the Board regarding the Board structure, size, composition and core competencies. Principle 4

For the selection and appointment of new Directors to the Board, the NC would, in consultation with the Board, evaluate and determine the selection criteria with due consideration to the mix of skills, experience, gender, and knowledge of the existing Board. Provision 4.3

- (i) First evaluates the strengths and capabilities of the existing Board before it proceeds to assess the needs of the future Board;
- (ii) Assess whether the needs of the future Board can be fulfilled by the appointment of one (1) person, and if not, to consult the Board with respect to the appointment of two (2) persons;
- (iii) Seek out and source for a wide range of suitable candidates and obtain their resumes for review;
- (iv) Conduct background checks on the candidates whose resumes the Company has received; and
- (v) Narrow this list of candidates to a short list, and then invite the shortlisted candidates for an interview which may include a briefing of the duties required to ensure that there are no differences in expectations, and to ensure that any new Director appointed has the ability and capacity to adequately carry out his duties as a Director of the Company, taking into consideration the number of listed company board representations he holds and other principal commitments he may have.

In selecting and appointing potential directors, the NC will seek out and source for a wide range of suitable candidates, including persons not directly known to the Directors. In addition, the NC is empowered to engage professional search firms to seek out and source for suitable candidates, at the Company's expense. The NC gives due consideration to all suitable candidates regardless of who identified the candidate. The NC will interview all suitable candidates in frank and detailed meetings, and thereafter review and evaluate the candidates, taking into account the candidate's track record, experience, capabilities and other relevant factors, and make its recommendations to the Board on all candidates nominated for appointment to the Board for approval. New Directors are appointed by way of a Board resolution following which they are subject to re-election at the next Annual General Meeting ("**AGM**").

The NC, in considering the re-appointment of any Director, had considered, inter alia, the attendance record at meetings of the Board and Board Committees, intensity of participation at meetings, and the quality of contributions to the development of strategy, the degree of preparedness, industry and business knowledge and experience each Director possesses which are crucial to the Group's business.

In accordance with the Constitution of the Company, all Directors shall retire at every AGM and all new Directors appointed by the Board will have to retire at the next AGM following their appointments (such Director shall then be eligible for re-election at that AGM). Additionally, pursuant to the introduction of Rule 720(5) of the Listing Manual, which took effect from 1 January 2019, all directors of the Company are required to submit themselves for re-nomination and re-appointment at least once every three (3) years. Listing Rule 720(5)

CORPORATE GOVERNANCE REPORT

The NC has assessed and recommended that Mr. Wang Yaoyu, Mr. Wang Zhi, Mr. Poh Kok Hong, Mr. Sim Guan Seng, Mr. Kong Chee Keong, Ms. Gn Jong Yuh Gwendolyn and Ms. Ong Joo Mien Joanna (collectively, "**Retiring Directors**"), be nominated for re-election at the forthcoming AGM. The Board has accepted the NC's recommendation and the Retiring Directors, save for Mr. Wang Zhi, will be offering themselves for re-election at the forthcoming AGM.

In reviewing the nomination of the Retiring Directors, the NC considered the performance and contribution of each of the Retiring Directors, having regards not only to their attendance and participation at Board and Board Committees meetings but also the time and efforts devoted to the Group's business and affairs.

Mr. Sim Guan Seng, Ms. Gn Jong Yuh Gwendolyn, Mr. Wang Zhi and Mr. Kong Chee Keong, being members of the NC who are retiring at the AGM, abstained from voting on the resolution in respect of their re-nomination as a Director of the Company.

The NC reviews and affirms the independence of the Company's Non-Executive Independent Directors annually. Each Director is required to complete a Director's independence checklist on an annual basis to confirm his/her independence. The Director's independence checklist is drawn up based on the provisions provided in the 2018 Code and the Listing Rules, and requires each Director to assess whether he/she considers himself/herself independent despite not being involved in any of the relationships identified in the 2018 Code and the Listing Rules. The NC then reviews the Director's independence checklist to determine whether each Director is independent. Provision 4.4

The Non-Executive Independent Directors have confirmed that they do not have any relationship with the Company, its related corporations, its substantial shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement in the best interests of the Company.

The Board, in consultation with the NC, considers Mr. Sim Guan Seng, Mr. Kong Chee Keong, Ms. Gn Jong Yuh Gwendolyn and Ms. Ong Joo Mien Joanna to be independent based on the definition of independence as set out in the Listing Rules and the 2018 Code.

The NC ensures that new Directors are aware of their duties and obligations. Provision 4.5

Currently, the Board has not determined the maximum number of listed board representations which any Director may hold. The NC and the Board focus on whether a Director has sufficient time to adequately discharge his/her duties as a Director of the Company. The NC and the Board will review the requirement from time to time to determine the maximum number of listed board representations to ensure that Directors are able to meet the demands of the Group and are able to discharge their duties adequately.

The NC monitors and assesses annually whether Directors who have multiple board representations and other principal commitments, are able to give sufficient time and attention to the affairs of the Company and diligently discharge his duties as a Director of the Company. The NC takes into account the results of the assessment of the effectiveness of the individual Director, his actual conduct on the Board and Board Committees, and his attendance record at meetings, in making this determination.

CORPORATE GOVERNANCE REPORT

The NC is satisfied that in FY2020, despite their other listed company board representations and other principal commitments, each of the Directors was able to give sufficient time and attention to the affairs of the Company, and was able to adequately carry out his or her duties as a Director of the Company.

There is no alternate director being appointed to the Board.

The key information regarding Directors such as academic and professional qualifications, Board Committees served, Directorships or Chairmanships both present and past held over the preceding three (3) years in other listed companies, their principal commitments and whether the appointment is executive or non-executive are set out in page 49 of the Annual Report.

Please also refer to the pages 50 to 58 of the Annual Report for the detailed information required pursuant to Rule 720(6) of the Listing Rules. Listing Rule 720(6)

PRINCIPLE 5: BOARD PERFORMANCE

The Board undertakes a formal annual assessment of its effectiveness as a whole, and that of each of its board committees and individual directors.

The Board has a process for assessing the effectiveness of the Board as a whole and its Board Committees, and for assessing the contribution of the individual Directors to the effectiveness of the Board. Principle 5

The NC is tasked with the assessment of the Board's performance, and reviews and evaluates the performance of the Board as a whole, each Board Committee, the contribution by the Chairman and each individual Director on an annual basis. The NC also recommends for the Board's approval the objective performance criteria and process for the abovementioned evaluation. Provision 5.1

The NC has established an appraisal process to assess and evaluate the performance and effectiveness of the Board as a whole and its Board Committees and for assessing the contribution by the Chairman and each individual Director to the effectiveness of the Board. The evaluation is conducted annually to identify areas of improvement and as a form of good Board management practice.

As part of the appraisal process, each Director was required to complete a Board evaluation form adopted by the NC, whereby each Director completed a self-assessment checklist based on various areas of assessment to assess their views on various aspects of the Board's, the Board Committee's, and each individual Director's performance. The results of these self-assessment checklists will be collated by the NC for review and assessment by the NC, which then tables the self-assessment checklists to the Board for discussion and makes recommendations to the Board aimed at assisting the Board to discharge its duties more effectively. Provision 5.2

The NC focuses on a set of objective performance criteria in the evaluation of the Board as a whole, the Board Committees and the individual Directors. The objective performance criteria used by the NC includes the evaluation of the size and composition of the Board and Board Committees, the Board's and the Board Committees' access to information, the Board's and Board Committees' process and accountability, the Board's and the Board Committees' performance in relation to discharging their principal functions and responsibilities, and the Directors' standard of conduct.

CORPORATE GOVERNANCE REPORT

In assessing the effectiveness of the Board as a whole, the Board Committees, and the individual Directors, the NC also takes into consideration the individual Director's industry knowledge and/or functional expertise, and workload requirements. The NC also assesses the contribution by the Chairman and each individual Director to the effectiveness of the Board and Board Committees. In addition, the NC considers the attendance, level of preparedness, participation and candour of the Directors in its assessment of each individual Director (including the Chairman).

The NC has reviewed and assessed the effectiveness of the Board based on the objective performance criteria approved by the Board, as detailed above. The NC is of the opinion that each member of the Board has discharged their duties adequately for FY2020 as a result of the active participation of each Board member during the meetings. No external facilitator was used during the evaluation process in FY2020.

The NC, having reviewed the overall performance of the Board, Board Committees and each individual Director, is of the view that the performance of the Board as a whole, each Board Committee and each individual Director has been satisfactory and met its performance objectives for FY2020.

The NC, having reviewed the results of these self-assessment checklists, is of the view that it is not appropriate to propose new Directors to be appointed to the Board or seek the resignation of the current Directors.

PRINCIPLE 6: PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

The Board has a formal and transparent procedure for developing policies on director and executive remuneration, and for fixing the remuneration packages of individual directors and key management personnel. No director is involved in deciding his or her own remuneration.

As at the date of this Corporate Governance Report, the RC comprises of four (4) Directors, of which three (3) are Non-Executive Independent Directors. Provision 6.2

Remuneration Committee

Ms. Ong Joo Mien Joanna (Chairman)
Ms. Gn Jong Yuh Gwendolyn (Member)
Mr. Wang Zhi (Member)
Mr. Kong Chee Keong (Member)

The RC is regulated by its written terms of reference which set out the RC's authorities and duties. Provision 6.1
The key functions of the RC include:

- (i) Reviewing and making recommendations to the Board a framework of remuneration for the Board and key management personnel;
- (ii) Reviewing and making recommendations to the Board on the specific remuneration packages for each Director as well as for the key management personnel;
- (iii) Reviewing and making recommendations to the Board on the terms of renewal for those Executive Directors whose current employment contracts will expire or had expired;

CORPORATE GOVERNANCE REPORT

- (iv) Reviewing all aspects of remuneration, including directors' fees, salaries, allowances, bonuses, options, share-based incentives and awards, benefits in kind and termination payments, as well as termination terms, to ensure they are fair and to avoid rewarding poor performance;
- (v) Reviewing the Company's obligations arising in the event of termination of the executive Directors' and key management personnel's contracts of service, so as to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous;
- (vi) Considering the various disclosure requirements for Directors' remuneration, particularly those required by regulatory bodies such as SGX-ST and to ensure that there is adequate disclosure in the financial statements to ensure and enhance transparency between the Company and relevant interested parties;
- (vii) Overseeing the award of share options and the payment of fees to Non-Executive Directors and to ensure, as far as is possible, that the quantum commensurate with the Non-Executive Directors' contribution to the Board and the Company; and Provision 6.3
- (viii) Retaining such professional consultancy firm as the RC may deem necessary to enable it to discharge its duties hereunder.

The Board has a formal and transparent procedure for developing policies on Director and executive remuneration, and for fixing the remuneration packages of individual Directors and key management personnel. Principle 6

No Director is involved in deciding his or her own remuneration. In particular, each Director shall abstain from voting on any resolution and making any recommendation and/or participating in any deliberation in respect of their own remuneration package.

Non-Executive Directors are paid fixed fees as Directors' fees. The Directors' fees are subject to shareholders' approval at the AGM.

The RC may seek expert advice inside and/or outside of the Company on matters relating to remuneration. It ensures that in the event of such advice being sought, existing relationships, if any, between the Company and its appointed remuneration consultants will not affect the independence and objectivity of the remuneration consultants. The Company did not engage any remuneration consultants during FY2020. Provision 6.4

CORPORATE GOVERNANCE REPORT

PRINCIPLE 7: LEVEL AND MIX OF REMUNERATION

The level and structure of remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value creation of the company, taking into account the strategic objectives of the company.

The RC and the Board in determining the level and structure of remuneration of the Board and key management personnel will ensure that they are appropriate and proportionate to the sustained performance and value creation of the Company, taking into account its strategic objectives, its long-term interests and risk policies. Principle 7

The RC has structured remuneration packages for Executive Directors and key management personnel to take into account performance related indicators, which include financial and non-financial factors. It is structured to link a significant and appropriate proportion of rewards to the Company and individual performance. Provision 7.1

The Non-Executive Director and Non-Executive Independent Directors are paid Directors' fees of an agreed amount appropriate to their level of contribution, taking into account factors such as effort and time spent, responsibilities and contribution to the Board, as well as the remuneration rates of comparable companies listed on Mainboard of the SGX-ST. Their remuneration are subject to shareholders' approval at the AGM. The Non-Executive Independent Directors shall not be over-compensated to the extent that their independence may be compromised. Provision 7.2

The remuneration framework for Directors and key management personnel is aligned with the interests of the shareholders and other relevant stakeholders and appropriate to attract, retain and motivate them to provide good stewardship of the Company for the long-term success of the Company. Provision 7.3

Darco Performance Share Plan

The Company had adopted the Darco Performance Share Plan ("**Share Plan**") for executive personnel and Directors. The RC and Performance Share Plan Committee ("**PSP Committee**") are responsible for overseeing and administration of the Share Plan in accordance with the Rules of the Share Plan.

During FY2020, the Company has not granted any shares to the Executive Directors, Non-Executive Directors and employees under the Share Plan. More details of the Share Plan are set out under the Corporate Governance Report in pages 37 to 38 of this Annual Report.

The Company does not use contractual provisions to allow the Company to reclaim incentive components of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company. The Executive Directors owe a fiduciary duty to the Company. The Company should be able to avail itself to remedies against the Executive Directors in the event of such breach of fiduciary duties.

CORPORATE GOVERNANCE REPORT

PRINCIPLE 8: DISCLOSURE ON REMUNERATION

The company is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.

The breakdown showing the level and mix of the remuneration of each Director during FY2020 is set out below: Principle 8
Principle 8.1

Remuneration Bands & Name of Directors	Base/Fixed salaries, including CPF	Variable or performance related income or bonus	Benefits in kind	Director's Fees	Total
Between S\$250,000 to S\$500,000					
Poh Kok Hong	77%	6%	–	17%	100%
Below S\$250,000					
Wang Yaoyu	100%	–	–	–	100%
Wang Zhi ⁽¹⁾	–	–	–	100%	100%
Sim Guan Seng ⁽²⁾	–	–	–	100%	100%
Kong Chee Keong ⁽³⁾	–	–	–	100%	100%
Gn Jong Yuh Gwendolyn	–	–	–	100%	100%
Joanna Ong Joo Mien	–	–	–	100%	100%
Tay Lee Chye Lester ⁽⁴⁾	–	–	–	100%	100%
Tay Von Kian ⁽⁵⁾	–	–	–	100%	100%

Notes:

- (1) Mr. Wang Zhi will be retiring, and will not be seeking re-election, as Non-Executive Deputy Chairman and Non-Executive Director at the forthcoming AGM of the Company.
- (2) Mr. Sim Guan Seng was appointed as Non-Executive Independent Directors with effect from 6 July 2020
- (3) Mr. Kong Chee Keong was appointed as Non-Executive Independent Director with effect from 6 July 2020
- (4) Mr. Tay Lee Chye Lester was retired as Lead Independent Director of the Company at its Annual General Meeting held on 26 June 2020
- (5) Mr. Tay Von Kian was retired as a Non-Executive Independent Director of the Company at its Annual General Meeting held on 26 June 2020

CORPORATE GOVERNANCE REPORT

The Directors have not been granted any stock options, share-based incentives and awards, and other long-term incentives in FY2020.

The breakdown showing the level and mix of the remuneration of the top two (2) key management personnel (who are not Directors or the CEO of the Company) during FY2020 is set out below:

Remuneration Bands & Name of Key Management Personnel	Base/Fixed salaries, including CPF	Variable or performance related income or bonus	Benefits in kind	Total
Below S\$250,000				
Zhao Yong Chang	93%	7%	–	100%
Teh Chun Sem	93%	7%	–	100%

For FY2020, the aggregate total remuneration paid to the top two (2) key management personnel disclosed in the table above (who are not Directors or the CEO) amounted to approximately S\$304,000.

The top two (2) key management personnel (who are not Directors or the CEO) have not been granted any stock options, share-based incentives and awards, and other long-term incentives in FY2020.

There were no termination, retirement or post-employment benefits granted to Directors, the CEO and the top two (2) key management personnel (who are not Directors or the CEO) in FY2020.

The following performance conditions were chosen for the Group to remain competitive and to motivate the Executive Directors and key management personnel to work in alignment with the goals of all stakeholders:

Performance Conditions	Short-term Incentives	Long-term Incentives
Qualitative	<ol style="list-style-type: none"> Leadership People development Commitment Teamwork Current market and industry practices 	<ol style="list-style-type: none"> Current market and industry practices

The Directors' fees payable to the Non-Executive Independent Directors and Non-Executive Director, namely Mr. Sim Guan Seng, Mr. Kong Chee Keong, Ms. Gn Jong Yuh Gwendolyn, Ms. Ong Joo Mien Joanna and Mr. Wang Zhi for the FY2020 are S\$16,139, S\$13,205, S\$30,000, S\$28,533 and S\$18,082 respectively. The Directors' fees paid to the Non-Executive Independent Directors are in accordance with their credentials, qualifications, experience and contributions. Other factors such as responsibilities, effort and time spent for serving on the Board and Board Committees also form part of the consideration in the determination of the Directors' fees. Directors' fees are recommended by the Board and are subject to the approval of Shareholders at the forthcoming AGM.

CORPORATE GOVERNANCE REPORT

Employees who are substantial shareholders of the Company, immediate family members of a Director, the CEO or a substantial shareholder of the Company Provision 8.2

Save as disclosed below, there are no other employees who are substantial shareholders of the Company, or are immediate family members of a Director, the CEO or a substantial shareholder of the Company, and whose remuneration exceeds S\$100,000 during FY2020.

Mr Thye Chee Yung is the son of Mr Thye Kim Meng, who is a substantial shareholder of the Company.

Details of remuneration paid to the immediate family members of substantial shareholder for FY2020 are as follows:

Name of Immediate family Member	Salaries, including CPF	Variable Bonus	Total
Between S\$50,000 to S\$150,000			
Thye Chee Yung	80%	20%	100%

The Board has considered Provision 8.1 of the Code, and after careful deliberation, has decided that as remuneration matters are confidential and commercially sensitive and full disclosure would be prejudicial to the Company's interest given the highly competitive environment. The Board is of the opinion that it is in the best interests of the Group not to disclose the exact remuneration of each individual Director, CEO, and the top two (2) key management personnel (who are not Directors nor CEO) in the Annual Report. The Board is of the opinion that the information disclosed in the Annual Report strikes an appropriate balance between detailed disclosure and confidentiality.

The Company ensures that the remuneration of key management is consistent and comparable with market practice by periodically reviewing and considering such remuneration components against those of comparable companies.

On 6 November 2014, Shareholders approved the Share Plan as part of a remuneration and compensation plan for attracting as well as retaining executive personnel and Directors. The Share Plan was approved to provide an opportunity for participants who have contributed and who may continue to contribute significantly to the growth and performance of the Group to participate in the equity of the Company in accordance with the rules of the Share Plan. The employees who are confirmed full-time employees of the Company and/or its subsidiaries, Directors of the Company and its subsidiaries (including Non-Executive Directors) and Directors and employees of an associated company where the Company has control over the associated company are eligible to participate in the Share Plan. The controlling shareholders and/or associates of controlling shareholders are not eligible to participate in the Share Plan. Provision 8.3

CORPORATE GOVERNANCE REPORT

Share Plan

The Share Plan is administered by the RC. To date, no Shares have been granted under the Share Plan. Please refer below for a summary of the Share Plan based on the Circular to Shareholders dated 21 October 2014. The Awards granted under this Share Plan will be determined at the sole discretion of the PSP Committee, which will oversee and administer the Share Plan. In considering the grant of an Award to a Participant, the PSP Committee shall take into account (where applicable) criteria such as the grade level, scope of responsibilities, contribution, performance, years of service and potential for future development of the Participant.

Eligibility

Persons who are eligible to participate in the Share Plan must be:

- (i) Employees who are confirmed full-time employees of the Company and/or its Subsidiaries who have attained the age of 21 years on or before the Date of Grant;
- (ii) Directors of the Company and its Subsidiaries (including Non-Executive Directors); or
- (iii) Directors and employees of an Associated Company where the Company has control over the Associated Company, who, in the opinion of the PSP Committee, have contributed or will contribute to the success of the Group. Persons who are Controlling Shareholders and/or Associates of Controlling Shareholders are not eligible to participate in the Share Plan.

Size of the Share Plan and Entitlement to Awards

The number of Shares to be awarded to each participant in accordance with the Share Plan shall be determined at the absolute discretion of the PSP Committee, which shall take into account criteria such as the grade level, scope of responsibilities, performance, years of service, potential for future development of the participant, contribution to the success of the Group and the extent of effort and resourcefulness with which the performance target(s) may be achieved within the performance period.

Pursuant to the Listing Manual of the SGX-ST, the total number of Shares which may be available pursuant to the Awards granted under the Share Plan, when aggregated with the aggregate number of Shares available under any other share-based schemes of the Company, shall not exceed 15% of the total issued Shares of the Company (excluding treasury shares and subsidiary holdings) from time to time.

Listing
Rule 845(1)

Details of Awards

The PSP Committee shall decide, inter alia, at its sole discretion, the following:

- (i) The Participant;
- (ii) The Date of Grant;
- (iii) The performance period;
- (iv) The performance target(s) which shall be set according to the specific roles of each Participant, and which may differ from participant to participant;

CORPORATE GOVERNANCE REPORT

- (v) The prescribed vesting period(s);
- (vi) The release schedule; and
- (vii) Any other condition which the PSP Committee may determine in relation to that award, including any restrictions against the disposal or sale of and/or other dealings in the Shares by the participant.

Awards may only be vested and consequently any Shares comprised in such Awards shall only be delivered upon the PSP Committee being satisfied that the Participant has achieved the performance target(s) set forth by the PSP Committee, and the PSP Committee shall have the absolute discretion to determine the extent to which the Shares under that award shall be released on the prescribed performance target(s) being satisfied (whether fully or partially) or exceeded, as the case may be, at the end of the prescribed performance period and in making any such determination, the PSP Committee shall have the right to make reference to the audited results of the Company or the Group, as the case may be, to take into account such factors as the PSP Committee may determine to be relevant, such as changes in accounting methods, taxes and extraordinary events, and further, the right to amend the performance target(s) if the PSP Committee decides that a changed performance target(s) would be a fairer measure of performance.

PRINCIPLE 9: ACCOUNTABILITY AND AUDIT – RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the company and its shareholders.

The Board recognises that the internal control system provides reasonable, but not absolute, assurance to the integrity and reliability of the financial information and to safeguard the accountability of the assets of the Group. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives. Principle 9
Provision 9.1

The Board, having considered various factors, including the aforementioned system of internal controls currently in place, the number of offices and factories the Group has, the nature and complexity of its operations as well as cost-effectiveness, has determined that it is not necessary for the Group to set up the Enterprise Risk Management programme and a separate internal audit function. Instead, the internal audit function is being outsourced to an external international auditing firm.

Additionally, the Board is of the view that it is not necessary to set up a Board Risk Committee to assist the Board in determining the nature and extent of the significant risks which the Company is willing to take in achieving its strategic objectives and value creation.

Going forward, the AC will consider the assessment and monitoring of the adequacy and effectiveness of the Group's internal controls via Control Self-Assessment ("**CSA**") to be performed by the Management annually. Also, the AC shall continue to outsource the internal audit function, and have the internal auditor review the CSA, when implemented, to enhance the system of internal controls.

CORPORATE GOVERNANCE REPORT

The Board is responsible for the governance of risk and ensures that the Management maintains a sound system of risk management and internal controls, to safeguard the interests of the Company and its Shareholders. The Management is responsible for designing, implementing and monitoring the risk management and internal control systems within the Group. The Management regularly reviews the Group's business and operational activities to identify areas of significant risks as well as appropriate measures to control and mitigate these risks. Any significant matters are highlighted to the Board and the AC for their deliberation.

In addition, the AC will review the Group's internal controls and risk management practices annually, taking into consideration the risks to which the business is exposed to, the likelihood of the occurrence of such risks and the cost of implementing mitigating controls.

The Board, together with the Management, shall be actively engaged in strategic transactions and corporate right-sizing exercises. The internal re-organization will include an internal control review to ensure proper delegation of authorities and accountability in order to exercise management controls over the operations.

An extensive internal review on the past transactions, as well as the Company internal control, was carried out by the Internal Auditor in prior year. Based on the review, some internal control deficiencies has been noted. Subsequent to the internal review, current management has since revised the Group Charter and internal control systems to address the deficiencies and strengthen the Group's overall internal controls. With these changes, the Management is satisfied that the deficiencies noted by the internal audit has been cleared.

Other than certain improvements as highlighted by the internal audit report, the Group has in place a system of internal controls that address financial, operational, compliance and information technology risks to safeguard shareholders' investment and the Group's assets. The internal controls maintained by the Management are in place throughout the financial year to provide reasonable assurance against material financial misstatements or loss, and include the safeguarding of assets, the maintenance of proper accounting records, compliance with appropriate legislation, regulations and practices, and the identification and containment of operational and business risks.

The CEO and the Chief Financial Officer (or equivalent) had provided written assurance to the Board that the financial records have been properly maintained and the financial statements for FY2020 give a true and fair view of the Company's operations and finances.

Provision 9.2

The CEO and other key management personnel who are responsible have provided written assurance to the Board that the Company's risk management and internal control systems are adequate and effective.

Based on the internal controls established and maintained by the Group, the audit conducted by the external and internal auditors as well as ongoing Management review, the Board, with the concurrence of the AC are of the opinion that the Group has adequate and effective systems of internal control (including financial, operational, compliance and information technology controls) and risk management systems, taking into account the nature and size of the Group's business and operations.

Listing
Rule 719(1)

CORPORATE GOVERNANCE REPORT

PRINCIPLE 10: AUDIT COMMITTEE

The Board has an Audit Committee ("AC") which discharges its duties objectively.

The AC comprises of four (4) Non-Executive Independent Directors.

Provision 10.2

Audit Committee

Mr. Sim Guan Seng (Chairman)

Ms. Gn Jong Yuh Gwendolyn (Member)

Ms. Ong Joo Mien Joanna (Member)

Mr. Kong Chee Keong (Member)

The AC members possess experience in finance, legal and business management. The Board is of the opinion that the members of the AC are appropriately qualified to carry out their responsibilities, set out in their terms of reference, by having the necessary accounting or related financial management expertise to discharge their responsibilities.

No former partner or director of the Company's existing audit firm has acted as a member of the AC.

Provision 10.3

The AC, which discharges its duties objectively, has written terms of reference which sets out their duties and responsibilities, which include the following:

Principle 10

- (i) Reviewing the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Company and any announcements relating to the Company's financial performance;
- (ii) Reviewing at least annually, the adequacy and effectiveness of the Company's internal controls and risk management systems;
- (iii) Reviewing the assurance from the CEO and CFO on the financial records and financial statements;
- (iv) Making recommendations to the Board on (i) the proposals to the Shareholders on the appointment and removal of external auditors, and (ii) the remuneration and terms of engagement of the external auditors;
- (v) Reviewing the adequacy, effectiveness, independence, scope and results of the external audit and the Company's internal audit function;
- (vi) Reviewing the policy and arrangements for concerns about possible improprieties in financial reporting or other matters to be safely raised, independently investigated and appropriately followed up on;
- (vii) Ensures that the Company publicly discloses, and clearly communicates to employees, the existence of a whistle-blowing policy and procedures for raising such concerns;
- (viii) Review with the external auditors their audit plan, audit report, management letter and the Management's response;

Provision 10.1

CORPORATE GOVERNANCE REPORT

- (ix) Review the half-year and annual financial statements before submission to the Board for approval;
- (x) Discuss problems and concerns, if any, arising from the external and internal audits, if any, and any matters which the auditors may wish to discuss (in the absence of Management where necessary);
- (xi) Review the assistance given by the Management to the auditors;
- (xii) Review the internal audit programme and ensure co-ordination between the internal and external auditors and management, where applicable;
- (xiii) Review and discuss with the external auditors, any suspected fraud or irregularity, or suspected infringement of any Singapore law, rules or regulations, which has or is likely to have a material impact on the Company's operation results or financial position, and Management's response;
- (xiv) Report to the Board its findings from time to time on matters arising and required the attention of the AC;
- (xv) Review interested person transactions falling within the scope of Chapter 9 of the SGX-ST Listing Manual;
- (xvi) Undertake such other reviews and projects as may be requested by the Board; and
- (xvii) Undertake such other functions and duties as may be required by statute or the SGX-ST Listing Manual, and by such amendments made thereto from time to time.

The AC has the powers to investigate any matter within its terms of reference, have full access and cooperation from the Management, and access to reasonable resources to enable it to discharge its functions properly. The AC has full discretion to invite any Executive Director or executive officer to attend its meetings.

Changes to accounting standards and issues which have a direct impact on financial statements will be highlighted to the AC from time to time by the external auditors. The external auditors will work with the Management to ensure that the Group complies with the new accounting standards, if applicable.

Internal Audit

Provision 10.4

The internal audit function is outsourced to BDO LLP who report primarily to the AC. BDO LLP is an international auditing firm and they perform their work based on the BDO Global Internal Audit Methodology which is consistent with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

The AC reviews and approves the internal audit plan submitted by the internal audit function. On an ongoing basis, the internal audit function reports any significant weaknesses and risks identified in the course of internal audits conducted to the AC. Recommendations to address control weaknesses are further reviewed by the internal audit function based on implementation dates agreed with the Management.

CORPORATE GOVERNANCE REPORT

The AC decides on the appointment, termination and remuneration of the internal auditor, and ensures that sufficient manpower is allocated for the internal audit function to adequately perform its functions and ensures that the internal audit function has unfettered access to all the Company's documents, records, properties and personnel, including the AC, and has appropriate standing within the Company.

The AC also reviews, at least annually, the adequacy and effectiveness and assesses the independence of the internal audit function including the qualifications and experience of the internal audit staff assigned to perform the review. The AC ensures that the internal audit function is adequately resourced and has appropriate standing within the Group. In relation to FY2020, the AC is of the view that the internal audit function is independent of the activities it audits, effective and adequately resourced.

Listing
Rule 719(3)

Listing
Rule 1207
(10C)

For FY2020, the AC had met with the external auditors and internal auditors without the presence of the Management and conducted a review of all non-audit services provided by the auditors. The AC is of the opinion that all non-audit services provided by the external Auditors would not affect the independence of the Auditors. The amount paid and payable to external auditors for audit and non-audit services fees for FY2020 were S\$330,000 and S\$13,000 respectively.

Provision 10.5

In the review of the financial statements for FY2020, the AC had discussed with the Management and the external auditors on changes to accounting standards and significant issues and assumptions that impact the financial statements. The most significant matters had also been included in the Independent Auditor's Report to the members of the Company under "Key Audit Matters". Following the review, the AC is satisfied that those matters, including revenue recognition using percentage-of-completion method, had been properly dealt with. The Board had approved the financial statements.

In respect of appointments and re-appointments of external auditors, the AC evaluates the performance of the external auditors taking into consideration the Audit Quality Indicators Disclosure Framework published by ACRA. The AC recommends to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors and approves the remuneration of the external auditors. The AC has recommended to the Board that Messrs Crowe Horwath First Trust LLP be nominated for re-appointment as external auditors at the forthcoming AGM of the Company.

In appointing the audit firms for the Group, the Company has complied with the requirements of Rules 712 and 715 of the Listing Manual of the SGX-ST. Apart from the Company's subsidiary in Philippines, the same auditors were appointed for the Company's subsidiaries. The Board and AC are satisfied that the appointment at a separate audit firm in Philippines would not compromise the standard and effectiveness of the audit of the Company.

Whistle-Blowing Policy

Provision 10.1

The Company has in place a Whistle-Blowing Policy and procedures for reporting improprieties in matters of financial reporting and other matters, by which the staff may raise concerns about possible corporate improprieties in matters of financial reporting or other matters in confidence. Details of the Whistle-Blowing Policy and procedures for raising concerns have been made available to all employees and members of the public through the Company's website.

CORPORATE GOVERNANCE REPORT

To ensure independent investigation of such matters and for appropriate follow up action, all whistleblowing reports are to be sent to the Chairman of AC. For independent follow-up or investigation, whistle-blowing report(s) will be communicated and directed to the Chairman of the AC. New staff are briefed on the Whistle-Blowing Policy and the procedures for raising concerns during the orientation programme.

As of the date of this Corporate Governance Report, there were no reports received through the whistle-blowing mechanism.

PRINCIPLE 11: SHAREHOLDER RIGHTS AND ENGAGEMENT – SHAREHOLDER RIGHTS AND CONDUCT OF GENERAL MEETINGS

The company treats all shareholders fairly and equitably in order to enable them to exercise shareholders' rights and have the opportunity to communicate their views on matters affecting the company. The company gives shareholders a balanced and understandable assessment of its performance, position and prospects.

The Company does not practice selective disclosure. In line with the continuous obligations of the Company under the SGX-ST Listing Manual and the Companies Act, Chapter 50 of Singapore, the Board's policy is that all shareholders should equally and on a timely basis be informed of all major developments that impact the Group via SGXNet. Principle 11

The Company will despatch the Annual Report and notice of AGM to all shareholders. Due to the current COVID-19 advisories issued by the relevant authorities in Singapore and the related safe distancing measures in Singapore, the forthcoming AGM of the Company will be held by way of electronic means and Shareholders will not be able to attend the AGM in person. To enable Shareholders to participate in and vote effectively at the forthcoming AGM to be held by way of electronic means, the Company has set out detailed information on arrangements relating to attendance at the AGM, submission of questions in advance of the AGM, addressing of substantial and relevant questions at the AGM, and voting procedures for the forthcoming AGM in the Company's announcement dated 13 April 2021. Provision 11.1

The Company acknowledges that voting by poll in all its general meeting is integral in the enhancement of corporate governance. All resolutions at the Company's general meetings are put to a vote by poll. For cost effectiveness of the Company, the voting of the resolutions at the Company's general meetings are conducted by manual polling. The detailed results of each resolution are announced via SGXNet after the general meetings.

At general meetings of Shareholders, the Company tables separate resolutions on each substantially separate issue unless the issues are interdependent and linked so as to form one significant proposal. Where resolutions are "bundled", the Company explains the reasons and material implications in the notice of meeting. Provision 11.2

All Directors attend the general meetings of the Company to allow Shareholders the opportunity to air their views and ask the Directors questions regarding the Company. The external auditors also attend the annual general meetings to assist the Directors in answering any queries relating to the conduct of the audit and the preparation and content of the auditor's report. Provision 11.3

CORPORATE GOVERNANCE REPORT

The Directors' attendance at the general meetings of the Company held in FY2020 are set out in the table below:

Name of Director	Annual General Meeting		Extraordinary General Meeting	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Wang Yaoyu	1	1	–	–
Wang Zhi ⁽¹⁾	1	1	–	–
Poh Kok Hong	1	1	–	–
Gn Jong Yuh Gwendolyn	1	1	–	–
Ong Joo Mien Joanna	1	1	–	–
Sim Guan Seng ⁽²⁾	–	–	–	–
Kong Chee Keong ⁽³⁾	–	–	–	–
Tay Lee Chye Lester ⁽⁴⁾	1	1	–	–
Tay Von Kian ⁽⁵⁾	1	1	–	–

Notes:

- (1) Mr. Wang Zhi will be retiring, and will not be seeking re-election, as Non-Executive Deputy Chairman and Non-Executive Director at the forthcoming AGM of the Company.
- (2) Mr. Sim Guan Seng was appointed as Non-Executive Independent Directors with effect from 6 July 2020
- (3) Mr. Kong Chee Keong was appointed as Non-Executive Independent Director with effect from 6 July 2020
- (4) Mr. Tay Lee Chye Lester retired as lead Independent Director of the Company at its Annual General Meeting held on 26 June 2020
- (5) Mr. Tay Von Kian retired as a Non-Executive Independent Director of the Company at its Annual General Meeting held on 26 June 2020

If any Shareholder is unable to attend general meetings of the Company, he/she is allowed to appoint up to two proxies to vote on his/her behalf at the meeting through proxy forms sent in advance. The Company's current Constitution does not include the right of the nominee and custodial services to appoint more than two proxies. Provision 11.4

On 3 January 2016, the legislation was amended, among other things to allow certain members, defined as "Relevant Intermediary" to attend and participate in general meetings without being constrained by the two-proxy requirement. Relevant Intermediary includes corporations holding licenses in providing nominee and custodial services and CPF Board which purchases shares on behalf of the CPF investors.

CORPORATE GOVERNANCE REPORT

The Company publishes minutes of its general meetings of Shareholders on its corporate website as soon as practicable. The minutes record substantial and relevant comments and queries from Shareholders relating to the agenda of the general meeting, and responses from the Board and Management. Provision 11.5

Dividend Policy Provision 11.6

The Company does not have a formal dividend policy. The form, frequency and amount of dividends will depend on the Company's earnings, general financial condition, results of operations, capital requirements, cash flow, general business condition, development plans and other factors as the Directors may deem appropriate. Not having a fixed dividend policy gives the Company flexibility to manage its available cash and working capital, and in particular, retain profits for future investment as part of the Company's efforts to achieve long-term growth for the benefit of Shareholders.

Dividends were not declared or paid for FY2020 in view that the Company would need to conserve cash for the working capital.

PRINCIPLE 12: ENGAGEMENT WITH SHAREHOLDERS

The company communicates regularly with its shareholders and facilitates the participation of shareholders during general meetings and other dialogues to allow shareholders to communicate their views on various matters affecting the company.

The shareholders are encouraged to attend the Company's general meetings to ensure a high level of accountability and to stay informed of the Group's strategies and growth plans. Notice of the general meeting is despatched to shareholders, together with explanatory notes or a circular on items of special businesses (if necessary), at least 14 clear calendar days before the meeting. The Board welcomes questions from shareholders who wish to raise issues, either informally or formally before or during the general meetings. Each item of special business included in the notice of the general meetings will be accompanied by explanation of the effects of a proposed resolution. Principle 12
Provision 12.1

The Company believes in high standards of transparent corporate disclosure and is committed to disclose to its Shareholders, the information in a timely and fair manner via SGXNet. Where there is inadvertent disclosure made to a selected Group, the Company will make the same disclosure publicly to all others as soon as practicable. Communication is made through:

- Annual reports that are prepared and sent to all Shareholders. The Board ensures that the annual report includes all relevant information about the Company and the Group, including future developments and other disclosures required by the Companies Act, Chapter 50 of Singapore and Singapore Financial Reporting Standards;
- Half yearly announcements containing a summary of the financial information and affairs of the Group for that period; and
- Notices of explanatory memoranda for AGMs and Extraordinary General Meetings ("EGMs"). The notice of AGMs and EGMs are also advertised in a national newspaper.

The Company provides avenues for communication between the Board and all Shareholders. The Company keeps Shareholders updated on the strategic direction of the Company via announcements released on SGXNET. The Company also seeks to solicit and understand the views of Shareholders.

CORPORATE GOVERNANCE REPORT

Investor Relations Policy

Provision 12.2

Although the Company does not have a team of investor relations personnel, Shareholders can access the Company's website at <http://www.darcowater.com/> for financial information, corporate announcements, press releases, annual reports and profile of the Group.

Provision 12.3

Price-sensitive information is first publicly released through SGXNet, before the Company meets with any investors or analysts. All Shareholders of the Company will receive the annual report with an accompanying notice of AGM by post. The notice of AGM is also published in the newspaper within the mandatory period.

PRINCIPLE 13: MANAGING STAKEHOLDER RELATIONSHIPS – ENGAGEMENT WITH STAKEHOLDERS

The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the company are served.

The Board adopts a balanced approach towards the needs and interests of key stakeholders, taking into account the best interests of the Company.

Principle 13

The Company has arrangements in place to identify and engage with its material stakeholder groups and to manage its relationships with such groups. To facilitate the exercise of stakeholders' rights, the Company ensures that all material information relating to the Company and its financial performance is disclosed in an accurate and timely manner via SGXNET. Stakeholders are also informed of rules, including voting procedures that govern the meeting. The Annual Report sets out the Company's strategy in managing stakeholder relationships.

Provision 13.1

The Company periodically assesses focus areas where the Company can have the greatest economic, environmental and social impact, as well as areas that are most important to its stakeholders. The Company has made efforts to seek the opinions of many stakeholders either through various means. In FY2020, the Company has maintained the Company's website to keep the stakeholders updated of developments as disclosed under Provision 12.1 above.

Provision 13.2

The Company maintains a current corporate website, <http://www.darcowater.com/>, to communicate and engage with stakeholders.

Provision 13.3

DEALING IN COMPANY'S SECURITIES

In compliance with Rule 1207(19) of the Listing Manual of the SGX-ST, the Company has adopted its own internal compliance code to provide guidance for the Company, Directors and all its Officers in relation to their dealings in the Company's securities.

The Company, Directors and its Officers are not allowed to deal in the Company's shares during the period commencing one month before the announcement of the Company's half year and full year results, and ending on the date of the announcement of the relevant results. Additionally, they are not allowed to deal in the Company's shares while in possession of price sensitive information. The Directors and Officers are required to report to the Company and the Company Secretary whenever they deal in the Company's shares and the Company will ensure that the necessary announcements are made. In addition, the Company, Directors and officers are also expected to observe insider-trading laws at all times even when dealing in securities within the permitted trading period and they are not to deal in the Company's securities on short-term considerations.

CORPORATE GOVERNANCE REPORT

INTERESTED PERSON TRANSACTIONS (“IPTs”)

The Company has established a register to ensure that all Interested Person Transactions are properly recorded, reviewed and approved, and are conducted on an arm’s length basis to ensure that all transactions with interested persons are reported on a timely manner to the AC, if any, and that transactions are carried out on a normal commercial terms and will not be prejudicial to the interest of the Company and its minority Shareholders.

The aggregate value of interested person transactions entered into during FY2020 is as follows:

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under Shareholders’ mandate pursuant to Rule 920 of the Listing Manual)	Aggregate value of all interested person transactions conducted under Shareholders’ mandate pursuant to Rule 920 of the Listing Manual (excluding transactions less than S\$100,000)
Not applicable	Not applicable	Not applicable

There was no subsisting Shareholders’ mandate for interested person transactions pursuant to Rule 920 of the SGX-ST Listing Manual during FY2020.

There were no interested person transactions of S\$100,000 and above entered into in FY2020.

MATERIAL CONTRACTS

Save as disclosed in the “Interested Person Transactions” section of this Corporate Governance Report, during FY2020, there were no material contracts entered into by the Company or any of its subsidiary companies involving the interests of the CEO, any Director or the controlling shareholder of the Company, either still subsisting at the end of the financial year or if not then subsisting, entered into since the end of the previous financial year.

CORPORATE GOVERNANCE REPORT

Additional information on Directors seeking re-election

Details	Name of Director					
	Wang Yaoyu	Poh Kok Hong	Sim Guan Seng	Kong Chee Keong	Gn Jong Yuh Gwendolyn	Ong Joo Mien Joanna
Date of Appointment	13 September 2016	1 July 2019	3 July 2020	3 July 2020	2 May 2019	2 May 2019
Date of last re-appointment (if applicable)	26 June 2020	26 June 2020	Nil	Nil	26 June 2020	26 June 2020
Age	64	51	61	52	50	56
Country of principal residence	China	Singapore	Singapore	Singapore	Singapore	Singapore
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	The Board of the Company has accepted the NC's recommendation, who has reviewed and considered Mr. Wang's contribution as Executive Chairman of the Company.	The Board of the Company has accepted the NC's recommendation, who has reviewed and considered Mr. Poh's contribution as Executive Director and CEO of the Company.	The Board of the Company has accepted the NC's recommendation, who has reviewed and considered Mr. Sim is able to exercise judgement as the Lead Independent Director on the corporate affairs of the Group and independent of the Management. The Board considers Mr. Sim to be independent for the purpose of Rule 704(8) of the Listing Rules.	The Board of the Company has accepted the NC's recommendation, who has reviewed and considered Mr. Kong is able to exercise judgement as the Non-Executive Independent Director on the corporate affairs of the Group and independent of the Management. The Board considers Mr. Kong to be independent for the purpose of Rule 704(8) of the Listing Rules.	The Board of the Company has accepted the NC's recommendation, who has reviewed and considered Ms. Gn is able to exercise judgement as the Non-Executive Independent Director on the corporate affairs of the Group and independent of the Management. The Board considers Ms. Gn to be independent for the purpose of Rule 704(8) of the Listing Rules.	The Board of the Company has accepted the NC's recommendation, who has reviewed and considered Ms. Ong is able to exercise judgement as the Non-Executive Independent Director on the corporate affairs of the Group and independent of the Management. The Board considers Ms. Ong to be independent for the purpose of Rule 704(8) of the Listing Rules.

CORPORATE GOVERNANCE REPORT

Details	Name of Director					
	Wang Yaoyu	Poh Kok Hong	Sim Guan Seng	Kong Chee Keong	Gn Jong Yuh Gwendolyn	Ong Joo Mien Joanna
Whether appointment is executive, and if so, the area of responsibility	Executive, Chairman of a Major subsidiary of the Darco Group (i.e. Wuhan Kaidi Water Services Co., Ltd.) as part of the Board to help formulate strategic direction and policy and responsible for Profit and Loss of a major subsidiary.	Executive, responsible for the general management, overall strategic planning and direction of the Group.	Non-Executive	Non-Executive	Non-Executive	Non-Executive
Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)	Executive Chairman	Executive Director and Chief Executive Officer	Lead Independent Director	Non-Executive Independent Director	Non-Executive Independent Director	Non-Executive Independent Director
Professional qualifications	Bachelor of Technology Power Plant and Power System, Hefei University of Technology, Registered Supervisory Engineer	Bachelor of Science in Aerospace Engineering, Mississippi State University and Master of Science in Aerospace Engineering with a Minor in Electrical Engineering, Mississippi State University	Bachelor of Accountancy (Hons); Certified Internal Auditor	Certified Accountant of Singapore Master of Business Administration	LLB (Hons), National University of Singapore; Advocate & Solicitor of Singapore	Bachelor of Accountancy, National University of Singapore; Certified Accountant of Singapore, Member of Institute of Singapore Chartered Accountant (ISCA) and Member of Singapore Institute of Directors

CORPORATE GOVERNANCE REPORT

Details	Name of Director					
	Wang Yaoyu	Poh Kok Hong	Sim Guan Seng	Kong Chee Keong	Gn Jong Yuh Gwendolyn	Ong Joo Mien Joanna
Working experience and occupation(s) during the past 10 years	<ul style="list-style-type: none"> - Year 2002 to Year 2009, Mr. Wang worked for Wuhan Kaidi Water Service Company. His last position held in Wuhan Kaidi Water Service Company was Assistant Chairman March 2005 to January 2009 - Executive Director of Asia Water Technology Ltd - July 2010 to September 2014 – Director of SIIIC Environment Holdings (Wuhan) Co., Ltd. - December 2014 to Present – Chairman of Wuhan Kaidi Water Service Company 	<ul style="list-style-type: none"> - May 2014 to June 2019 – Regional Sales Director, Standaraero - July 2012 to May 2014 – Director Customer Support, Nordam Singapore Pte. Ltd. - May 2011 to December 2011 – Business Development Manager, Goodrich Customer Services - Dec 2011 – July 2012 – Acting Business Development Director, Goodrich Customer Services - June 2006 to May 2011 – Flight Hour Agreement Manager, Goodrich Aerostructures Service Center – Asia Pte. Ltd. 	<ul style="list-style-type: none"> - Year 2010 to Year 2019 – Managing Partner of Baker Tilly TFW LLP - Year 2019 to Present – Senior Partner of Baker Tilly TFW LLP 	<ul style="list-style-type: none"> - Year 2011 to Present – Managing Director. Pervest Co Pte Ltd - Year 2007 to 2010 – Senior VP Investment and Finance, HealthTrends Medical Investment Pte Ltd 	<ul style="list-style-type: none"> - Year 2006 to Present – Lawyer/ Partner in ShookLin & Bok LLP 	<ul style="list-style-type: none"> - July 2015 to Present – Independent Director, Asia Pay Television Trust - Year 2010 to Present – Director, J. Ong Business Services Pte. Ltd. - Year 2002 to 2006 – Vice President (Finance), StarHub Limited - Year 1991 to 2001 – Assistant Vice President (Finance), Singapore CableVision Ltd

CORPORATE GOVERNANCE REPORT

Details	Name of Director					
	Wang Yaoyu	Poh Kok Hong	Sim Guan Seng	Kong Chee Keong	Gn Jong Yuh Gwendolyn	Ong Joo Mien Joanna
Shareholding interest in the listed issuer and its subsidiaries	Yes	Nil	Nil	Nil	Nil	Nil
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	Nil	Nil	Nil	Nil	Nil	Nil
Conflict of interest (including any competing business)	Nil	Nil	Nil	Nil	Nil	Nil
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer	Yes	Yes	Yes	Yes	Yes	Yes

CORPORATE GOVERNANCE REPORT

Details	Name of Director					
	Wang Yaoyu	Poh Kok Hong	Sim Guan Seng	Kong Chee Keong	Gn Jong Yuh Gwendolyn	Ong Joo Mien Joanna
Other Principal Commitments Including Directorships	<p>Past (for the last 5 years) Nil</p> <p>Present Director of: – Wuhan Liankai Investment Co., Ltd – Wuhan Kaidi Water Services Co., Ltd.</p>	<p>Past (for the last 5 years) Nil</p> <p>Present Nil</p>	<p>Past (for the last 5 years) Director of: – Cennerv Pharmaceuticals Pte. Ltd. – VSC International Pte Ltd – Varun Asia Pte Ltd – Baker Tilly Consultancy (Singapore) Pte. Ltd. – Park Crescent Services Pte Ltd – TFW Management Services Pte Ltd</p> <p>Principal Commitments: – Singapore Accountancy Commission</p> <p>Present Director of: – Lightway Corporate Services Pte. Ltd. – St. James' Preschool Services (Anglican) Ltd. – National Volunteer and Philanthropy Centre</p> <p>Principal Commitments: – Baker Tilly TFW LLP – NCC Research Fund – NCCS Cancer Fund</p>	<p>Past (for the last 5 years) Director of: – Libra Group Limited</p> <p>Principal Commitments: – PT Energi Pravest Jaya (Commissioner) – PT Alabama Energi (Commissioner) – PT Charma Paluta Energi (Commissioner) – PT Bukit Lau Energi</p> <p>Present Director of: – Penvest Co Pte Ltd – Blue Tirta Pte Ltd – Arc Energy Pte Ltd – LM Energy Pte Ltd – JEP Holdings Ltd – PT Puncak Bintang Perkasa</p> <p>Principal Commitments: – PT Penvest Tirta Energi (Commissioner) – PT Penvest Sipoti Energi (Commissioner)</p>	<p>Past (for the last 5 years) Director of: – Libra Group Limited</p> <p>Present Director of: – UMS Holdings Limited – Tata Precision Industries Private Limited</p> <p>Principal Commitment: Partner of: – Shook Lin & Bok LLP</p>	<p>Past (for the last 5 years) Nil</p> <p>Present Director of: – Asian Pay Television Trust – J. Ong Business Services Pte Ltd – YWS Design Asian Pte Ltd</p>

CORPORATE GOVERNANCE REPORT

Details	Name of Director					
	Wang Yaoyu	Poh Kok Hong	Sim Guan Seng	Kong Chee Keong	Gn Jong Yuh Gwendolyn	Ong Joo Mien Joanna
The general statutory disclosures of the Directors are as follows:						
a. Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?	No	No	No	No	No	No
b. Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	No	No	No	No	No	No

CORPORATE GOVERNANCE REPORT

Details	Name of Director					
	Wang Yaoyu	Poh Kok Hong	Sim Guan Seng	Kong Chee Keong	Gn Jong Yuh Gwendolyn	Ong Joo Mien Joanna
c. Whether there is any unsatisfied judgment against him?	No	No	No	No	No	No
d. Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?	No	No	No	No	No	No
e. Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	No	No	No	No	No	No

CORPORATE GOVERNANCE REPORT

Details	Name of Director					
	Wang Yaoyu	Poh Kok Hong	Sim Guan Seng	Kong Chee Keong	Gn Jong Yuh Gwendolyn	Ong Joo Mien Joanna
f. Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	No	No	No	No	No	No
g. Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	No	No	No	No	No	No
h. Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	No	No	No	No	No	No

CORPORATE GOVERNANCE REPORT

Details	Name of Director					
	Wang Yaoyu	Poh Kok Hong	Sim Guan Seng	Kong Chee Keong	Gn Jong Yuh Gwendolyn	Ong Joo Mien Joanna
i. Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	No	No	No	No	No	No
j. Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:-						
i any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	No	No	No	No	No	No
ii any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	No	No	No	No	No	No

CORPORATE GOVERNANCE REPORT

Details	Name of Director					
	Wang Yaoyu	Poh Kok Hong	Sim Guan Seng	Kong Chee Keong	Gn Jong Yuh Gwendolyn	Ong Joo Mien Joanna
iii. any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or	No	No	No	No	No	No
iv. any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?	No	No	No	No	No	No
k. Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	No	No	No	No	No	No

CORPORATE GOVERNANCE REPORT

Details	Name of Director					
	Wang Yaoyu	Poh Kok Hong	Sim Guan Seng	Kong Chee Keong	Gn Jong Yuh Gwendolyn	Ong Joo Mien Joanna
Information required Disclosure applicable to the appointment of Director only.						
Any prior experience as a director of an issuer listed on the Exchange?	Yes	No	No	Yes	Yes	Yes
If yes, please provide details of prior experience.	Asia Water Technology Ltd – Executive Director	N/A	N/A	– JEP Holdings Ltd – Independent Director & AC Chairman – Libra Group Limited – Independent Director & AC Chairman	– UMS Holdings Limited – Independent Director – Libra Group Limited – Independent Director	Asian Pay Television Trust
If no, please state if the director has attended or will be attending training on the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange.	N/A	Yes	Yes	N/A	N/A	N/A

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

The directors present their statement to the members together with the audited financial statements of Darco Water Technologies Limited (the "Company") and subsidiaries (the "Group") for the financial year ended 31 December 2020 and the statement of financial position of the Company as at 31 December 2020.

In the opinion of the directors,

- (a) the statement of financial position of the Company and the consolidated financial statements of the Group as set out on pages 69 to 168 are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 31 December 2020 and of the financial performance, changes in equity and cash flows of the Group for the financial year then ended; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The board of directors has, on the date of this statement, authorised these financial statements for issue.

Directors

The directors of the Company in office at the date of this statement are as follows:

Wang Zhi
 Wang Yaoyu
 Gn Jong Yuh, Gwendolyn
 Ong Joo Mien
 Poh Kok Hong
 Kong Chee Keong (appointed on 6 July 2020)
 Sim Guan Seng (appointed on 6 July 2020)

Directors' interests in shares or debentures

According to the register kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Cap. 50, none of the directors and chief executive officer holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Direct interests		Deemed interests	
	At 1 January 2020	At 31 December 2020	At 1 January 2020	At 31 December 2020
Company				
<i>Ordinary shares</i>				
Wang Zhi	27,680,000	41,792,318	-	-
Wang Yaoyu	-	-	13,387,118	-

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

Directors' interests in shares or debentures (Continued)

Mr. Wang Zhi, who by virtue of his interests of not less than 20% of the issued capital of the Company is deemed to have an interest in the whole of the share capital of the Company's wholly owned subsidiaries and in ordinary shares held by the Company in the following subsidiaries that are not wholly owned by the Group:

	Deemed interests	
	At 1 January 2020	At 31 December 2020
Wuhan Kaidi Water Services Co., Ltd <i>Ordinary shares</i>	36,000,000	36,000,000
Darco Environmental (Philippines) Inc. <i>Ordinary shares</i>	65,000	65,000
Puzer Asia Pte. Ltd. <i>Ordinary shares</i>	140,000	140,000
Darco Infracore Vietnam Water Pte. Ltd. <i>Ordinary shares</i>	1,040,816	1,040,816
Darco Ba Lai Water Supply Co., Ltd <i>Ordinary shares</i>	76,500,000,000	76,500,000,000
Darco Nghe An Co., Ltd <i>Ordinary shares</i>	9,000,000,000	9,000,000,000
Darco Ha Tinh Co., Ltd <i>Ordinary shares</i>	9,000,000,000	9,000,000,000
PT Panghegar Energy Indonesia <i>Ordinary shares</i>	6,000	-
PT Jabar Bersih Lestari <i>Ordinary shares</i>	96,000	-

There was no change in any of the above-mentioned interests in the Company or its related corporations between the end of the financial year and 21 January 2021.

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

Arrangements to enable directors to acquire benefits by means of the acquisition of shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Share options

On 6 November 2014, the shareholders of the Company have approved the proposed Darco Performance Share Plan ("Share Plan") as part of a remuneration and compensation plan for attracting as well as retaining executive personnel and Directors.

Directors of the Company and its subsidiaries (including Non-Executive Directors) and Directors and employees of an associated company where the Company has control over the associated company are eligible in the Share Plan.

The number of shares available under the said Share Plan will be subject to the maximum limit of 15% of the Company's total issued shares.

As at the date of this report, no shares have been granted under the Share Plan.

During the financial year, there were:

- no options granted by the Company or its subsidiaries to any person to take up unissued shares in the Company or its subsidiaries;
- no shares issued by virtue of any exercise of option to take up unissued shares of the Company or its subsidiaries; and
- no unissued shares of the Company or its subsidiaries under option.

Audit committee

The members of the Audit Committee at the end of the financial year are as follows:

Sim Guan Seng	(Chairman of the Audit Committee and Independent Director)
Ong Joo Mien	(Independent Director)
Gn Jong Yuh, Gwendolyn	(Independent Director)
Kong Chee Keong	(Independent Director)

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

Audit committee (Continued)

The Audit Committee carried out its functions in accordance with Section 201B (5) of the Singapore Companies Act, Cap. 50, the Listing Manual of the Singapore Exchange Securities Trading Limited and the Code of Corporate Governance. In performing those functions, the Audit Committee reviewed:

- the scope and the results of internal audit procedures with the internal auditor;
- the audit plan of the Company's independent auditors and any recommendations on internal accounting controls arising from the statutory audit;
- the assistance given by the Company's management to the independent auditors;
- the periodic results announcements prior to their submission to the Board for approval;
- the statement of financial position of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2020 prior to their submission to the Board of Directors, as well as the independent auditor's report on the statement of financial position of the Company and the consolidated financial statements of the Group; and
- interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited).

The Audit Committee has recommended to the Board of Directors that the independent auditors, Crowe Horwath First Trust LLP, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company. The Audit Committee has conducted an annual review of non-audit services provided by the auditors to satisfy itself that the nature and extent of such services will not affect the independence and objectivity of the external auditors before confirming their re-nomination.

In appointing the external auditors for the Company and subsidiaries, the Company has complied with Rules 712 and 715 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

Further details regarding the Audit Committee are disclosed in the Corporate Governance Report.

Independent auditors

The independent auditors, Crowe Horwath First Trust LLP, have expressed their willingness to accept re-appointment as auditors of the Company.

On behalf of the Board of Directors

WANG YAORYU
Director

POH KOK HONG
Director

31 March 2021

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED

Crowe Horwath First Trust LLP

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Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Darco Water Technologies Limited ("the Company") and its subsidiaries ("the Group"), set out on pages 69 to 168, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ("the Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2020 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matter is the matter that, in our professional judgement, was of most significant in our audit of the financial statements of the current year. The matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED (Continued)

Key Audit Matter (Continued)

Revenue recognition using input method	
<p>Refer to following notes to the financial statements ~ Note 2 "Significant accounting policy" and "Critical accounting estimates, assumptions and judgement" ~ Note 17 "Revenue"</p>	
The key audit matter	How the matter was addressed in our audit
<p>In the Engineered Environmental Systems segment, the Group recognised revenue from its contract revenue over time. Such revenue amounted to \$61.6 million (2019: \$53.7 million) for the current financial year, representing 79% (2019: 72%) of the Group's revenue.</p> <p>Input method (cost method) is used to estimate the progress to complete the performance obligation, and that involves a number of significant estimates and judgements by the management, including:</p> <ul style="list-style-type: none"> estimating the total contract costs, including the costs to complete the contract; and appropriately provide for impairment loss in onerous contracts. <p>We focused on this area in view of significant judgements involved in estimating total contract costs, which is susceptible to management bias.</p>	<p>We have discussed with management and project managers to obtain understanding of the nature of the projects. Our key audit procedures in relation to the accuracy of the revenue recognised over time are as summarised below:</p> <ul style="list-style-type: none"> Examined significant contract revenue and reviewed them to obtain an understanding of the key terms of the contracts and the contract sum; Reviewed management's conclusion that such contracts fulfil over-time recognition criteria in accordance with SFRS(I) 15 and the choice of method in measuring the progress; Assessed the design and implementation of the Group's internal controls over the accuracy of allocation of actual costs to the respective contracts; Assessed the completeness of the total contract costs estimated by management, taking into account the actual costs incurred, estimation of costs to complete, historical accuracy of past estimates in respect of those contracts; Discussed with management on potential significant costs overruns which may result in provision for onerous contracts; and Recalculated management's computation of the progress, and assessed reasonableness against other measurement of progress. <p>Based on the results of above procedures, we considered that the management judgement in revenue recognition policy for these contracts and in estimating the progress of the completion of performance obligation using input method to be reasonable.</p> <p>We have also considered the disclosures of the sensitivity of the estimation uncertainty in the financial statements to be appropriate.</p>

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED (Continued)

Key Audit Matter (Continued)

Impairment of trade receivables and contract assets under SFRS (I) 9	
<p>Refer to following notes to the financial statements ~ Note 2 "Significant accounting policy" and "Critical accounting estimates, assumptions and judgement" ~ Note 9 "Trade and other receivables"</p>	
The key audit matter	How the matter was addressed in our audit
<p>The Group has material trade receivables and contract assets totalling \$50.4 million (2019: \$48.6 million), which represents 55% (2019: 45%) of the Group's total assets as at 31 December 2020.</p> <p>In view of Covid-19 pandemic and the inherent nature of industry which the Group operates in, the credit terms and payment history of the Group's customers may be prolonged, giving rise to increased risk in the recoverability of trade receivables.</p> <p>The Group determines the expected credit losses ("ECL") of trade receivables by making debtor specific assessment of overdue trade receivables and establishes a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to those customers and the economic environment.</p> <p>We focused on this area in view of significant judgements involved in determining the impairment provision, which is susceptible to management bias.</p>	<p>We have discussed with management to obtain understanding the methodology adopted by management. Our key audit procedures in relation to the ECL allowances are as summarised below:</p> <ul style="list-style-type: none"> • Obtained an understanding of the Group's processes and key controls relating to the monitoring of trade receivables and considering aging profile to identify collection risks; • Assessed the reasonableness of the methodology adopted by management in determining the ECL allowance and the underlying assumptions used by management based on historical credit loss experience and consideration of forward-looking information; • Tested the underlying historical collection and loss experience data by checking, on a sample basis, to the underlying accounting records for payments received and balances written off; and • Reviewed the accuracy of the provision matrix calculation. <p>Based on the results of above procedures, we considered that the management judgement in valuation of trade receivables in relation to ECL to be reasonable.</p>

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED (Continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but did not include in the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationship and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current year and is therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Kow Wei-Jue Duncan.

Crowe Horwath First Trust LLP

Public Accountants and
Chartered Accountants
Singapore

31 March 2021

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

(Amounts in thousands of Singapore dollars (“\$’000”))

	Note	Group		Company	
		2020 \$’000	2019 \$’000	2020 \$’000	2019 \$’000
ASSETS					
Non-current assets					
Property, plant and equipment	3	6,079	7,630	-	-
Right-of-use assets	4	900	715	-	-
Intangible assets	5	911	3,593	-	-
Investment in subsidiaries	6	-	-	17,219	19,739
Deferred tax assets	7	410	653	-	-
Other receivables and refundable deposits	9	1,324	-	1,324	-
		<u>9,624</u>	<u>12,591</u>	<u>18,543</u>	<u>19,739</u>
Current assets					
Inventories	8	1,816	6,186	-	-
Trade and other receivables	9	61,180	62,507	14,579	15,487
Income tax recoverable		279	143	-	-
Cash and bank balances	10	19,006	27,420	1,965	6,341
		<u>82,281</u>	<u>96,256</u>	<u>16,544</u>	<u>21,828</u>
TOTAL ASSETS		<u>91,905</u>	<u>108,847</u>	<u>35,087</u>	<u>41,567</u>
LIABILITIES					
Current liabilities					
Trade and other payables	11	39,470	52,592	1,560	1,411
Borrowings	12	5,380	10,940	1,325	5,349
Lease liabilities	13	315	323	-	-
Derivative financial instruments	14	-	3	-	-
Income tax payable		387	264	-	-
		<u>45,552</u>	<u>64,122</u>	<u>2,885</u>	<u>6,760</u>
Non-current liabilities					
Borrowings	12	1,018	1,310	-	-
Lease liabilities	13	454	242	-	-
Deferred tax liabilities	7	3	28	-	-
		<u>1,475</u>	<u>1,580</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES		<u>47,027</u>	<u>65,702</u>	<u>2,885</u>	<u>6,760</u>
NET ASSETS		<u>44,878</u>	<u>43,145</u>	<u>32,202</u>	<u>34,807</u>

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

(Amounts in thousands of Singapore dollars (“\$’000”))

	Note	Group		Company	
		2020 \$’000	2019 \$’000	2020 \$’000	2019 \$’000
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	15	76,766	76,766	76,766	76,766
Other reserves	16(a)	(3,170)	(3,395)	-	-
Accumulated losses	16(b)	(32,435)	(33,487)	(44,564)	(41,959)
		41,161	39,884	32,202	34,807
Non-controlling interests	6(f)(ii)	3,717	3,261	-	-
TOTAL EQUITY		44,878	43,145	32,202	34,807

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

	Note	2020 \$’000	2019 \$’000
Revenue	17	78,082	74,801
Cost of sales		(64,468)	(64,802)
Gross profit		13,614	9,999
Other income	18	1,891	451
Distribution expenses		(1,118)	(1,733)
Administrative expenses		(12,506)	(16,294)
Reversal of impairment loss / (Impairment loss) on financial assets	28(iii)	194	(3,771)
Finance costs	19	(254)	(550)
Profit / (Loss) before income tax	21	1,821	(11,898)
Income tax (expense) / credit	22	(536)	417
Profit / (Loss) for the financial year		1,285	(11,481)
Other comprehensive income / (loss)			
<u>Items that may be reclassified subsequently to profit or loss</u>			
Currency translation differences arising from consolidation		447	(442)
Currency translation differences arising from consolidation reclassified to profit or loss		(218)	-
Other comprehensive income / (loss), net of tax		229	(442)
Total comprehensive income / (loss) for the financial year		1,514	(11,923)
Profit / (Loss) attributable to:			
Equity holders of the Company		1,176	(8,829)
Non-controlling interests		109	(2,652)
		1,285	(11,481)
Total comprehensive income / (loss) attributable to:			
Equity holders of the Company		1,277	(9,200)
Non-controlling interests		237	(2,723)
		1,514	(11,923)
Profit / (Loss) per share attributable to equity holders of the Company (cents)			
Basic and diluted	23	1.25	(9.41)

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (" \$'000"))

	Attributable to equity holders of the Company				Non-controlling interests \$'000	Total \$'000
	Share capital \$'000	Other reserves \$'000	Accumulated losses \$'000	Total \$'000		
Balance at 1.1.2020	76,766	(3,395)	(33,487)	39,884	3,261	43,145
Profit for the financial year	-	-	1,176	1,176	109	1,285
Other comprehensive income for the financial year, net of tax	-	319	-	319	128	447
- Currency translation differences arising from consolidation	-	-	-	-	-	-
- Currency translation differences arising from consolidation reclassified to profit or loss (Note 6(b)(ii) and 6(c))	-	(218)	-	(218)	-	(218)
Total comprehensive income for the financial year	-	101	1,176	1,277	237	1,514
<u>Distribution to owners</u>	-	-	-	-	-	-
Transfer to statutory reserve (Note 16(a))	-	124	(124)	-	-	-
<u>Change in ownership interests in subsidiaries</u>	-	-	-	-	219	219
Elimination of NCI upon disposal and liquidation of subsidiaries (Note 6(b)(ii) and 6(c))	-	-	-	-	-	-
Balance at 31.12.2020	76,766	(3,170)	(32,435)	41,161	3,717	44,878

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

	Attributable to equity holders of the Company				Non-controlling interests \$'000	Total \$'000
	Share capital \$'000	Other reserves \$'000	Accumulated losses \$'000	Total \$'000		
Balance at 1.1.2019	76,766	(3,261)	(24,658)	48,847	5,305	54,152
Loss for the financial year	-	-	(8,829)	(8,829)	(2,652)	(11,481)
Other comprehensive loss for the financial year, net of tax	-	(371)	-	(371)	(71)	(442)
- Currency translation differences arising from consolidation						
Total comprehensive loss for the financial year	-	(371)	(8,829)	(9,200)	(2,723)	(11,923)
<u>Change in ownership interests in subsidiaries</u>						
Partial disposal of a subsidiary without a change in control (Note 6(e))	-	237	-	237	763	1,000
Acquisition of subsidiaries (Note 6(b)(i))	-	-	-	-	(84)	(84)
Balance at 31.12.2019	76,766	(3,395)	(33,487)	39,884	3,261	43,145

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

(Amounts in thousands of Singapore dollars (" \$'000"))

	Note	2020 \$'000	2019 \$'000
Cash flows from operating activities			
Profit / (Loss) before income tax		1,821	(11,898)
Adjustments:			
Amortisation of intangible assets		153	1,669
Depreciation of property, plant and equipment		654	650
Depreciation of right-of-use assets		417	320
Fair value (gain) / loss on derivatives		(3)	3
Gain on disposal of property, plant and equipment		(19)	(8)
Impairment loss on intangible assets		-	2,920
Property, plant and equipment written off		-	6
Provision for slow moving stock		36	-
Inventories written off		-	78
(Reversal of impairment loss) / Impairment loss on financial assets	28(iii)	(194)	3,771
Loss on disposal and liquidation of subsidiaries		88	-
Rental concessions		(30)	-
Reversal of payables		(35)	-
Interest expenses		254	550
Interest income		(131)	(151)
Exchange differences		268	1,689
		<hr/>	<hr/>
Operating profit / (loss) before working capital changes		3,279	(401)
Inventories		4,513	(3,267)
Contract (liabilities) / assets		(21,686)	17,969
Trade and other receivables		9,121	(16,602)
Trade and other payables		3,660	2,660
Withdrawal / (Placement) of fixed deposits and bank balances pledged	10	1,235	(1,447)
		<hr/>	<hr/>
Cash from / (used in) operations		122	(1,088)
Income taxes paid		(596)	(374)
		<hr/>	<hr/>
Net cash used in operating activities		(474)	(1,462)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

	Note	2020 \$’000	2019 \$’000
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	6(b)(i)	-	(1,674)
Disposal of subsidiaries, net of cash outflows	6(b)(ii)	(8)	-
Liquidation of subsidiary, net of cash outflows	6(c)	(80)	-
Withdrawal / (Placement) of fixed deposits with tenure more than 3 months	10	41	(114)
Purchase of property, plant and equipment	A	(628)	(2,032)
Proceeds from disposal of property, plant and equipment		21	30
Purchase of intangible assets		(1)	-
Interest received		131	151
Net cash used in investing activities		(524)	(3,639)
Cash flows from financing activities			
Partial disposal of a subsidiary without a change in control	6(e)	-	1,000
Proceeds from borrowings		2,093	5,624
Repayment of borrowings		(7,968)	(2,911)
Principal repayment of lease liabilities		(367)	(319)
Interest paid		(233)	(562)
Net cash (used in) / from financing activities		(6,475)	2,832
Net decrease in cash and cash equivalents		(7,473)	(2,269)
Cash and cash equivalents at beginning of financial year		20,179	22,673
Effect of exchange rate changes on cash and cash equivalents		231	(225)
Cash and cash equivalents at end of financial year	10	12,937	20,179

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (" \$'000"))

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 comprise:

	2020 \$'000	2019 \$'000
Property, plant and equipment purchased during the financial year (Note 3)	628	2,322
Less:		
Deposit paid in previous financial year ended 31 December 2018	-	(290)
Cash payment to acquire property, plant and equipment	<u>628</u>	<u>2,032</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

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 disclosed in Note 6.

The financial statements for the financial year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Board of Directors on 31 March 2021.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below and are drawn up in accordance with the Singapore Financial Reporting Standards (International) (“SFRS(I)”). The financial statements are presented in Singapore dollars (“\$”) and all values are recorded to nearest thousand (\$’000) as indicated.

The preparation of the financial statements in conformity with SFRS(I)s requires management to exercise its judgements in the process of applying the Group’s accounting policies. It also requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management’s best knowledge of current events and actions, actual results may ultimately differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements and areas involving a higher degree of judgement or complexity, are disclosed in this Note.

Adoption of new and revised standards

On 1 January 2020, the Group adopted the new or amended SFRS(I) and Interpretations of SFRS(I) (“SFRS(I) INT”) that are mandatory for application from that date. Changes to the Group’s accounting policies have been made as required, in accordance with the transitional provisions in the respective SFRS(I) and SFRS(I) INT. The adoption of these new or amended SFRS(I) and SFRS(I) INT did not result in substantial changes to the Group’s and Company’s accounting policies and had no material effect on the amounts reported for the current or prior financial years, except as disclosed below:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (" \$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of new and revised standards (Continued)

Early adoption of Amendments to SFRS(I) 16: Covid-19-Related Rent Concessions

The Group has elected to early adopt the amendments to SFRS(I) 16 which introduced a practical expedient for a lessee to elect not to assess whether a rent concession occurring as a direct consequence of Covid-19 is a lease modification, if all the following conditions are met:

- (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- (c) there is no substantive change to other terms and conditions of the lease.

The Group has elected to apply this practical expedient to all property leases. As a result of applying the practical expedient, rent concessions of \$30,000 (Note 18) was recognised as negative variable lease payments in the profit or loss during the year, which is reflected as other income.

Standards issued but not yet effective

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

<u>Description</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to SFRS(I) 9, SFRS(I) 1-39, SFRS(I) 7, SFRS(I) 4, SFRS(I) 16: <i>Interest Rate Benchmark Reform - Phase 2</i>	1 January 2021
Amendments to SFRS(I) 3: <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to SFRS(I) 1-16: <i>Property, Plant and Equipment - Proceeds before Intended Use</i>	1 January 2022
Amendments to SFRS(I) 1-37: <i>Onerous Contracts - Cost of Fulfilling a Contract</i>	1 January 2022
Annual Improvements to SFRS(I)s 2018-2020	1 January 2022
- Amendments to SFRS(I) 1: <i>First-time Adoption of SFRS(I)</i>	
- Amendments to SFRS(I) 9: <i>Financial Instruments</i>	
- Amendments to Illustrative Examples accompanying SFRS(I) 16: <i>Leases</i>	
- Amendments to SFRS(I) 1-41: <i>Agriculture</i>	
Amendments to SFRS(I) 1-1: <i>Classification of Liabilities as Current or Non-Current</i>	1 January 2023
SFRS(I) 17: <i>Insurance Contracts</i>	1 January 2023
Amendments to SFRS(I) 10 and SFRS(I) 1-28: <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	To be determined

The directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Group accounting

(i) Subsidiaries

(a) Basis of consolidation

Subsidiaries are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanied by a shareholding giving rise to a majority of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

(b) Acquisition of businesses

The acquisition method of accounting is used to account for business combinations by the Group. The Group determines that it has acquired a business when the acquired set of assets and activities includes, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with SFRS(I)1-39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

For non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree’s net assets in the event of liquidation, the Group elects on an acquisition-by-acquisition basis whether to recognise them either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net identifiable assets, at the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Group accounting (Continued)

(i) Subsidiaries (Continued)

(b) Acquisition of businesses (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

(c) Disposals of subsidiaries or businesses

The assets and liabilities of the subsidiary, including any goodwill, are derecognised when a change in the Company’s ownership interest in a subsidiary result in a loss of control over the subsidiary. Amounts recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific Standard.

Any retained interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained investment at the date when control is lost and its fair value is recognised in profit or loss. Subsequently, the retained interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(ii) Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owner of the Company.

Changes in the Company’s ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with owners of the Group. Any difference between the change in the carrying amounts of the non-controlling interest and the fair value of the consideration paid or received is recognised in a separate reserve within equity attributable to the owners of the Company.

Investment in subsidiaries

Investments in subsidiaries are carried at cost less accumulated impairment losses in the Company’s statement of financial position. On disposal of investments in subsidiaries, the difference between disposal proceeds and the carrying amounts of the investments is recognised in profit or loss.

Currency translation

(i) Functional and presentation currency

The individual financial statements of each entity are measured using the currency of the primary economic environment in which the entity operates (“functional currency”). The consolidated financial statements are presented in Singapore dollars (“\$”), which is also the functional currency of the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Currency translation (Continued)

(ii) Transactions and balances

Transactions in a currency other than the functional currency (“foreign currency”) are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group’s net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity in the consolidated financial statements. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

(iii) Translation of the Group’s financial statements

The assets and liabilities of foreign operations are translated into Singapore dollars at the rate of exchange ruling at the reporting date and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income – foreign currency translation reserve relating to that particular foreign operation is recognised in the profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss.

Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of property, plant and equipment including subsequent expenditure is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance expenses are recognised in profit or loss when incurred.

After initial recognition, property, plant and equipment except for freehold lands are stated at cost less accumulated depreciation and any accumulated impairment losses.

Construction in progress includes all cost of construction and other direct costs. Construction in progress is reclassified to the appropriate category of property, plant and equipment when complete and ready to use.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (" \$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Freehold lands and construction in progress are not depreciated. All other items of property, plant and equipment are depreciated using the straight-line method to write-off the cost over their estimated useful lives as follows:

	<u>Useful lives</u> (Years)	<u>Estimated residual value as a</u> <u>percentage of cost (%)</u>
Freehold buildings	50	-
Leasehold lands and buildings	30 to 50	0% - 5%
Renovations	5	-
Motor vehicles	5	0% - 5%
Plant and equipment	3 to 10	0% - 5%

The residual value, estimated useful life and depreciation method are reviewed, and adjusted as appropriate, at each reporting date to ensure that the amount, method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment. Fully depreciated assets are retained in the financial statements until they are no longer in use.

The carrying amount of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on retirement or disposal is determined as the difference between any sales proceeds and the carrying amounts of the asset and is recognised in the profit or loss within "Other income / (expenses)".

Intangible assets

(i) Goodwill on acquisitions

Goodwill on acquisition of subsidiaries or businesses represents the excess of (i) the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquire and the acquisition-date fair value of any previously-held equity interest in the acquiree over (ii) the fair value of the net identifiable assets acquired net of the fair values of the liabilities and any contingent liabilities assumed.

Goodwill on subsidiaries is recognised separately as intangible assets and carried at cost less accumulated impairment losses.

Gains and losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the entity sold. Certain portion of goodwill arose from a change in parent's ownership interests in a subsidiary (after control is obtained) before July 2009. The revised FRS 27 which was issued on 1 July 2009 did not require retrospective adjustment be made on goodwill that was recognised prior to 1 July 2009 and allowed the goodwill be stated at carrying value as of 1 July 2009.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those units.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

(i) Goodwill on acquisitions (Continued)

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash generating units) to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment loss recognised for goodwill is not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

(ii) Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost, which includes the purchase price and other directly attributable cost of preparing the asset for its intended use. The cost of intangible assets acquired in a business combination is their fair values at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and are recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

(Amounts in thousands of Singapore dollars (" \$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

(ii) Other intangible assets (Continued)

(a) Trade name and trademarks

Trade name and trademarks are measured at fair value less accumulated amortisation and accumulated impairment losses. The costs are amortised to profit or loss using the straight-line method over the estimated useful lives of 7 years.

(b) Patented technologies and license

Patented technologies are measured at fair value less accumulated amortisation and accumulated impairment losses. The costs are amortised to profit or loss using the straight-line method over the estimated useful lives of 5 years.

(c) Computer software and others

Computer software and others are measured at fair value less accumulated amortisation and accumulated impairment losses. The costs are amortised to profit or loss using the straight-line method over the estimated useful lives of 3 to 5 years.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent on those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecasts calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth years.

Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset’s or cash-generating unit’s recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in the profit and loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

Financial assets and liabilities

(i) Initial recognition and measurement

Trade receivables are initially recognised when they are originated. Other financial assets and financial liabilities are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

Trade receivables without financing component is initially measured at the transaction price in accordance with SFRS(I) 15. Other financial assets or financial liabilities are initially recognised at fair value plus, in the case of financial assets or liabilities not at fair value through profit or loss, directly attributable transaction costs.

(ii) Classification and subsequent measurement

Financial assets

Financial assets are classified and subsequently measured at amortised cost or fair value on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, at the following categories:

- Amortised costs
- Fair value through Other Comprehensive Income (FVOCI) – Debt investments
- FVOCI – Equity investments
- Fair value through profit or loss (FVPL)

Financial assets are not reclassified after initial recognition unless the Group changes its business model for managing financial assets, in which case such reclassification will be applied prospectively from the reclassification date.

Financial assets at amortised costs

Unless designated at FVPL, financial assets are measured at amortised costs if:

- It is held within a business model with an objective to hold the assets to collect contractual cash flows; and
- Its contractual cash flows comprise of solely principal and interest on the principal amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities (Continued)

(ii) Classification and subsequent measurement (Continued)

Financial assets (Continued)

Financial assets at amortised costs (Continued)

These assets, mainly trade and other receivables (excludes prepayments, advances to suppliers, GST / VAT receivables and contract assets) and cash and bank balances, are subsequently measured at amortised costs using the effective interest rate method, which is reduced by impairment losses. Interest income, foreign exchange differences, and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI

Unless designated at FVPL, a debt investment is measured at FVOCI if:

- It is held within a business model with objectives of both collecting contractual cash flows and selling financial assets; and
- Its contractual cash flows comprise of solely principal and interest on the principal amount outstanding.

These assets are subsequently measured at fair value. Interest income calculated on effective interest rate method, foreign exchange differences and impairment are recognised in profit or loss. Other net gains and losses (including changes in fair value) are recognised in OCI. The cumulative amounts in OCI are reclassified to profit or loss upon derecognition.

Equity investments at FVOCI

Unless held-for-trading, the Group may irrevocably elect on initial recognition, on an investment-by-investment basis, to present subsequent changes of fair value of the equity investments in OCI.

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses (including changes in fair value) are recognised in OCI which will never be reclassified to profit or loss.

Financial assets at FVPL

All financial assets not at amortised cost or FVOCI as described above are measured at fair value through profit or loss. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI to be measured at FVPL, if doing so eliminates or significantly reduce accounting mismatch that would otherwise arise.

Financial assets held for trading or are managed and whose performance is evaluated on a fair value basis would be mandatorily measured at FVPL.

These assets are subsequently measured at fair value. Net gains or losses, including any interest income or dividend income are recognised in profit or loss.

As at the reporting date, the Group does not have other categories of financial assets other than financial assets at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities (Continued)

(ii) Classification and subsequent measurement (Continued)

Financial liabilities

Financial liabilities are subsequently measured at amortised costs unless it is held for trading (including derivative liabilities), or designated as financial liabilities at FVPL on initial recognition to significantly reduce accounting mismatch or when a group of financial liabilities are managed whose performance is evaluated on a fair value basis.

Financial liabilities at amortised costs are subsequently measured at amortised costs using the effective interest rate method. Interest expense and foreign exchange differences are recognised in profit or loss. These financial liabilities mainly comprise trade and other payables (excludes contract liabilities and provision for unutilised leave), borrowings and lease liabilities.

Financial liabilities at FVPL are measured at fair value with net gains and losses (including interest expense) recognised in profit or loss. Directly attributable transaction costs are recognised in profit or loss as incurred.

As at the reporting date, the Group does not have other categories of financial liabilities except for financial liabilities at amortised costs.

(iii) Derecognition

Financial assets

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial assets. On derecognition of a financial asset in its entirety, the difference between the carrying amount measured at the derecognition date and the sum of the consideration received is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of the assets within the period generally established by regulation or convention in the marketplace concerned.

Financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires. The Group also derecognise a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount of the financial liabilities extinguished, or transferred and the consideration paid (including non-cash transferred or liabilities assumed) is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities (Continued)

(iv) Offsetting

Financial assets and liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Impairment of financial assets

The Group applies impairment model in SFRS(I) 9 to measure the Expected Credit Losses (“ECL”) of the following categories of assets:

- Financial assets at amortised costs (including trade and other receivables and cash and bank balances)
- Contract assets (determined in accordance with SFRS(I) 15)
- Debt investments at FVOCI
- Intragroup financial guarantee contracts

ECLs are probability-weighted estimates of credit losses, which are measured at the present value of all cash shortfalls (difference between the cash flows due to the Group in accordance with the contracts and the cash flows that the Group expects to receive), discounted at effective interest rate of the financial asset. The expected cash flows include cash flows from the sale of collaterals held, if any, or other credit enhancements that are integral to the contractual terms.

Simplified approach

The Group applies simplified approach to all trade receivables and contract assets. Impairment loss allowance is measured at life time ECL, which represents ECLs that result from all possible default events over the expected life of a financial instrument or contract asset (‘life-time ECL’). The Group has established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to those customers and the economic environment.

General approach

The Group applies general approach on all other financial instruments and financial guarantee contracts, and recognise a 12-month ECL on initial recognition. 12-months ECL are ECLs that result from possible default events within 12 months after the reporting date or up to the expected life of the instrument, if shorter.

Impairment loss allowance or reversals are recognised in profit or loss. Loss allowance on financial assets at amortised cost and contract assets are deducted from the gross carrying amount of those asset. Loss allowance on debt investments at FVOCI are recognised in OCI, and does not reduce the carrying amount of the financial assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Significant increase in credit risk (Stage 2)

For credit exposures for which there has been a significant increase in credit risk since initial recognition, impairment loss allowance is measured at life-time ECL. When a financial asset is determined to have a low credit risk at reporting date, the Group assumes that there has been no significant increase in credit risk since initial recognition. For other cases, the Group uses reasonable and supportable forward-looking information available without undue cost or effort to determine, at each reporting date, whether there is significant increase in credit risk since initial recognition. In assessing whether there has been significant increase in credit risks, the Group takes into account factors such as:

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the debtor’s ability to meet its debt obligations
- actual or expected significant adverse change in the regulatory, economic, or technological environment that are expected to cause a significant change in the debtor’s ability to meet its debt obligations
- an actual or expected significant change in the operating results of the debtors

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

If credit risk has not increased significantly since initial recognition or if the credit quality improves such that there is no longer significant increase in credit risk since initial recognition, loss allowance is measured at 12-month ECL.

Definition of default

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligation in full, without recourse by the Group; or
- The financial asset is more than 90 days past due, unless otherwise indicated in credit risk note (Note 28(iii)).

The Group considers a contract asset to be in default when the customer is unlikely to pay the contractual obligations to the Group in full without recourse by the Group.

Credit-impaired (Stage 3)

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (" \$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Write-off policy

The Group writes off the gross carrying amount of a financial assets to the extent that there is no realistic prospect of recovery, for example when the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the Group.

Derivative financial instruments

A derivative financial instrument is initially recognised at its fair value on the date the contract is entered onto and is subsequently carried at its fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates each hedge as either (a) fair value hedge; (b) cash flow hedge; or (c) net investment hedge. As at previous reporting date, the Group has only cash flow hedge.

Fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognised in profit or loss when the changes arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Raw materials and trading goods comprise of all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. These costs are assigned on a weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to be incurred for selling and distribution.

Where necessary, allowance is provided for damage, obsolete and slow-moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Provision

A provision is recognised when the Group has a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. Where the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provision for onerous contracts on uncompleted contracts is recognised immediately in profit or loss when it is determinable.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial guarantees

The Company has issued corporate guarantees to banks for bank borrowings of its subsidiaries. These guarantees are financial guarantee contracts as they require the Company to reimburse the banks if the subsidiaries fail to make principal or interest payments when due in accordance with the terms of their borrowings.

Financial guarantee contracts are initially recognised as a liability at their fair values, adjusted for transaction costs directly attributable to the issuance of the guarantees.

Financial guarantee contracts are initially measured at fair value plus transaction costs and subsequently measured at the higher of:

- (a) premium received on initial recognition less the cumulative amount of income recognised in accordance with the principles of SFRS(I) 15; and
- (b) the amount of expected loss computed using the impairment methodology under SFRS(I) 9.

Borrowings

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the reporting date, in which case they are presented as non-current liabilities.

Borrowings are initially recorded at fair value, net of transaction costs and subsequently carried for at amortised costs using the effective interest method.

Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings which are due to be settled within twelve months after the reporting date are included in the current borrowings in the statement of financial position even though the original term was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue.

Leases

At the lease commencement date, the Group recognises a Right-of-Use (“ROU”) asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases and low-value leases as described below.

ROU asset

ROU assets are initially measured at cost, which comprise initial amount of lease liability, any lease payment made at or before commencement date, plus initial direct costs incurred, less lease incentives received. Initial direct costs are costs that would not have been incurred if the lease had not been obtained.

Whenever the Group incurs obligations for costs to dismantle and remove a leased asset, restore the site or the underlying asset to the condition required by the terms and conditions of the lease contract, a provision is recognised and measured under SFRS(I) 1-37; and included in the carrying amount of the ROU assets to the extent that the costs relate to a ROU asset.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

ROU asset (Continued)

ROU assets are subsequently measured at cost less accumulated depreciation and impairment losses. ROU assets are depreciated from commencement date to the earlier of end of lease terms and useful life of the ROU assets. In addition, the ROU assets are also adjusted for certain remeasurement of lease liability.

ROU assets are presented as a separate line item on the statement of financial position.

Lease liability

Lease liability is initially measured at the present value of lease payments discounted using interest rate implicit in the lease, or if that rate cannot be readily determined, the lessee’s incremental borrowing rate. Generally, the Group uses the incremental borrowing rate as the discount rate, which is estimated by reference to interest rates from various external financing sources for similar terms such as lease terms, type of assets leases and economic environment.

The following lease payments are included in the measurement of lease liability:

- Fixed payment (including in-substance fixed payments), less any lease incentives receivables;
- Variable lease payment that are based on an index or rate, initially measured using the index or rate as at the commencement date;
- Amount expected to be payable under residual value guarantees;
- The exercise price of a purchase option if it is reasonably certain to exercise the option; and
- Payment of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease liability is measured at amortised cost using effective interest method. Remeasurement of lease liability (and corresponding adjustment to ROU asset, or to profit or loss when the ROU asset has been reduced to zero) is required when there is:

- a change in future lease payments arising from changes in an index or rate, in which case the initial discount rate is used;
- a change in the Group’s assessment of whether it will exercise an extension or termination option, in which case a revised discount rate is used; or
- modification in the scope or the consideration of the lease that was not part of the original term and not accounted for as separate lease, in which case a revised discount rate at effective date of modification is used.

The Group presents the lease liabilities are presented as a separate line item on the statement of financial position.

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(Amounts in thousands of Singapore dollars (“\$’000”))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Exemption / exclusion

The following leases/ lease payments are not included in lease liabilities and ROU asset:

- The Group has elected not to recognise ROU asset and lease liabilities for short term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For such leases, the Group recognises the lease payments in profit or loss as an operating expense on a straight-line basis over the lease term.

Covid-19 Rent concessions

The Group has applied the practical expedients under Amendments to SFRS(I) 16: *Covid-19-Related Rent Concessions* and hence is not required to assess whether eligible rent concessions that are direct consequence of the Covid-19 are lease modifications. The Group applies the practical expedient to all leases and recognise the effect in profit or loss as other income. For rent concessions in other leases to which the Group chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Group assess whether there is a lease modification.

Share capital and issuance expenses

Proceeds from issuance of ordinary shares are classified as share capital in equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against share capital.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customers, at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Unless otherwise mentioned, the Group concludes that it is acting as a principal in the provision of goods or services in its contracts with customers.

(a) *Sale of goods*

Revenue from sale of goods is recognised upon transfer of control to the customers usually at the point in time when the goods have been delivered to customers. The Group normally invoices the customers upon delivery of the goods with 30 to 120 days credit term.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (" \$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

(b) Revenue from contract revenue - Engineered Environmental ("EE") Systems

Revenue from contract revenue is recognised over time as it creates or enhances assets controlled by the customers. The progress of completion is measured by reference of contract costs incurred in proportion to the total estimated contract costs for each contract. Management considers that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under SFRS(I) 15. Costs that are not related to the contracts or do not contribute to the progress of satisfying the performance obligation are excluded when calculating the progress, and are expensed as incurred.

Progress billing to customers are based on milestone/ payments schedule set out in the contracts. When the value of revenue recognised exceeds payments received from the customers, the Group recognises the difference as a contract asset. A contract liability is recognised in the reverse situation.

The incremental costs of obtaining the contract, mainly sales commission, is capitalised if the Group expects to recover those costs. The tender costs are expensed out as incurred. The Group uses the practical expedient to recognise incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset would have been one year or less. For costs to fulfil the contracts not within the scope of other SFRS(I), the Group capitalise the costs as contract costs assets only if (a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify; (b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (c) the costs are expected to be recovered. Costs that does not fulfil the above criteria is expensed immediately as incurred.

Capitalised contract costs are amortised on a systematic basis that is consistent with the revenue recognised. An impairment loss is recognised in profit or loss to the extent that the carrying amount of capitalised contract costs exceeds the expected remaining consideration (net of direct costs to be incurred).

Allowance is made where necessary to account for onerous contracts. To determine the total costs, the Group monitors and reviews constantly the progress of contracts taking into consideration all inputs from both internal project team and external customers. The review includes evaluating any potential risks and factors which may affect the timely completion of the contracts. The review also includes review of total budgeted costs whereby both actual costs incurred and future costs to complete are critically examined.

(c) Revenue from rendering of services - Water Management Services

Revenue from rendering of servicing and maintenance support services are recognised over time on a straight-line basis for contracts with fixed rate per month as these represent series of repetitive services. When the service contracts provide fixed rate per service or visit, the revenue is recognised on invoiced value per month as it represents an amount that corresponds directly with the value to the customer of the Group's performance completed to date, as allowed by practical expedient in SFRS(I) 15. Otherwise, revenue is recognised at point in time when the customer obtains control of the assets or services.

Other income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and that the Group will comply with all the attached conditions. Where the grant relates to an asset, the fair value is recognised as deferred income on the statement of financial position and is amortised to profit or loss over a systematic basis over the expected useful life of the relevant asset.

When the grant relates to expenses, it is recognised in profit or loss as other income on a systematic basis in periods in which the related costs, for which it intended to compensate, are recognised as expenses, unless the conditions are met after the related expenses have been recognised. In this case, the grant is recognised when it becomes receivable.

Employees’ benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Retirement benefits

The Group and the Company participate in the national schemes as defined by the laws of the countries in which it has operations.

Singapore

The Company and certain subsidiaries make contribution to the Central Provident Fund (“CPF”) Scheme in Singapore, a defined contribution pension scheme.

Foreign subsidiaries

The subsidiaries, incorporated and operating in Malaysia, the People’s Republic of China and Philippines, are required to provide certain retirement plan contribution to their employees under the existing regulations. Contribution are provided at the rates stipulated by the regulations in the countries where the subsidiaries operate.

Obligations for contributions to defined contribution retirement plans are recognised as an expense in the period in which the related service is performed.

(iii) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability as a result of services rendered by employees up to the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars ("S\$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

All borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group and the Company incurred in connection with the borrowing of funds.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income taxes for current and prior periods are recognised at the amount expected to be paid to or recovered from the tax authorities, using tax rates and tax laws that have been substantively enacted by the reporting date in the countries where the Group operates and generates taxable income. Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow deferred tax assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A related party is defined as follows:

- (a) A person or a close member of that person’s family is related to the Group and the Company if that person:
- (i) Has control or joint control over the Company;
 - (ii) Has significant influence over the Company; or
 - (iii) Is a member of the key management personnel of the Group or the Company or of a parent of the Company.
- (b) An entity is related to the Group and the Company if any of the following conditions applies:
- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) Both entities are joint ventures of the same third party;
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
 - (vi) The entity is controlled or jointly controlled by a person identified in (a);
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits with financial institutions, and short-term, highly liquid investments readily convertible to known amounts of cash which have an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, deposits with financial institutions, and short term, highly liquid investments readily convertible to known amounts of cash and subjected to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group’s cash management.

Contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the statement of financial position of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (" \$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn resources and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, which in the case is the Chief Executive Officer of the Group, to make decision about resources to be allocated and to assess performance of the operating segments.

Critical accounting estimates, assumptions and judgement

Estimates, assumptions and judgement are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The Group has also considered the market conditions (including the impact of Covid-19) as at the reporting date, in making estimates and judgements as at 31 December 2020. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(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 constrained. 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 2020 are disclosed in Note 17(b).

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 \$840,000 (2019: \$1,479,000).

(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. The amount of ECL allowances, key assumptions and inputs used are disclosed in Note 28(iii).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates, assumptions and judgement (Continued)

(i) Critical accounting estimates and assumptions (Continued)

(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.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate included in the budget.

The carrying amount of goodwill and further details of the key assumptions applied in the impairment assessment of goodwill are disclosed in Note 5.

The carrying amount of property, plant and equipment, right-of-use assets and investment in subsidiaries are disclosed in Note 3, Note 4 and Note 6 respectively.

(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 2020 amounted to \$279,000 and \$387,000 (2019: \$143,000 and \$264,000) 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 2020, a subsidiary in The People’s Republic of China which enjoys a concessionary tax rate of 15% (2019: 15%), had recognised deferred tax assets of approximately \$410,000 (2019: \$371,000) respectively on the basis that the concessionary tax rate will still be available at the timing of reversal of the temporary differences.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

(Amounts in thousands of Singapore dollars (" \$'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates, assumptions and judgement (Continued)

(i) Critical accounting estimates and assumptions (Continued)

(d) *Income tax (Continued)*

Deferred tax – unrecognised

The Group and Company have not recognised deferred tax assets relating to tax losses of approximately \$17,654,000 and \$6,068,000 (2019: \$16,676,000 and \$4,817,000) respectively that are available to be carried forward. As disclosed in Note 7, these losses relate to the Company and certain subsidiaries that have a history of losses and may not be used to offset taxable income elsewhere in the Group. The Group and the Company have deductible temporary differences of approximately \$748,000 and \$40,000 (2019: \$1,131,000 and \$15,000) respectively which are not recognised as deferred tax assets. The Company and the respective subsidiaries have neither temporary taxable differences nor any tax planning opportunities available that could support the recognition of any of these losses and deductible temporary differences as deferred tax assets. If the Group was able to recognise all unrecognised deferred tax assets, the resulting deferred tax income of approximately \$3,128,000 (2019: \$3,027,000) would increase the Group's profit (2019: reduce the Group's loss) for the financial year.

(ii) Critical judgement in applying the entity's accounting policies

Revenue recognition on contract revenue

The Group has assessed its contracts in EE system as a single performance obligation due to the inter-dependence 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold lands	Freehold buildings	Leasehold lands and buildings	Renovations	Construction in progress	Motor vehicles	Plant and equipment	Total
	\$’000	\$’000	\$’000	\$’000	\$’000	\$’000	\$’000	\$’000
Cost								
As at 1 January 2019	271	919	3,020	691	157	1,324	2,807	9,189
Additions	1,300	-	-	-	875	76	71	2,322
Reclassification	-	-	-	-	(122)	-	122	-
Transfer to right-of-use assets (Note 4)	-	-	(182)	-	-	(115)	-	(297)
Acquisition of a subsidiary (Note 6(b)(i))	-	-	-	-	1,123	-	18	1,141
Disposals	-	(16)	-	-	-	(68)	(4)	(88)
Written-off	-	-	-	-	(6)	(83)	(4)	(93)
Currency translation differences	(7)	(4)	(66)	(10)	(2)	(4)	(15)	(108)
As at 31 December 2019	1,564	899	2,772	681	2,025	1,130	2,995	12,066
As at 1 January 2020	1,564	899	2,772	681	2,025	1,130	2,995	12,066
Additions	-	-	-	10	340	198	80	628
Reclassification	-	-	-	-	(78)	-	78	-
Disposal of a subsidiary (Note 6(b)(ii))	-	-	-	-	(1,123)	-	(19)	(1,142)
Disposals	-	-	-	-	-	(134)	(2)	(136)
Written off	-	-	-	-	(465)	-	-	(465)
Currency translation differences	(1)	(1)	117	14	(34)	17	9	121
As at 31 December 2020	1,563	898	2,889	705	665	1,211	3,141	11,072

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars ("S\$'000"))

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)	Freehold lands	Freehold buildings	Leasehold lands and buildings	Renovations	Construction in progress	Motor vehicles	Plant and equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Accumulated depreciation								
As at 1 January 2019	-	287	400	337	-	863	2,126	4,013
Charge for the financial year (Note 21)	-	18	118	121	-	155	238	650
Transfer to ROU assets (Note 4)	-	-	(44)	-	-	(8)	-	(52)
Acquisition of a subsidiary (Note 6(b)(i))	-	-	-	-	-	-	7	7
Disposals	-	(16)	-	-	-	(47)	(3)	(66)
Written-off	-	-	-	-	-	(83)	(4)	(87)
Currency translation differences	-	(3)	(11)	(4)	-	(3)	(8)	(29)
As at 31 December 2019	-	286	463	454	-	877	2,356	4,436
As at 1 January 2020	-	286	463	454	-	877	2,356	4,436
Charge for the financial year (Note 21)	-	18	120	102	-	165	249	654
Disposal of a subsidiary (Note 6(b)(ii))	-	-	-	-	-	-	(4)	(4)
Disposals	-	-	-	-	-	(133)	(1)	(134)
Currency translation differences	-	-	21	6	-	13	1	41
As at 31 December 2020	-	304	604	562	-	922	2,601	4,993
Net carrying amount								
As at 31 December 2020	1,563	594	2,285	143	665	289	540	6,079
As at 31 December 2019	1,564	613	2,309	227	2,025	253	639	7,630

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

3. PROPERTY, PLANT AND EQUIPMENT (Continued)

Assets pledged as security

The Group’s freehold lands, freehold buildings and leasehold lands and buildings with an aggregate carrying amount of \$4,571,000 (2019: \$4,619,000) are mortgaged to the banks in Malaysia and The People’s Republic of China to secure the Group’s bank loans and facilities (Note 12).

The properties held by the Group as at 31 December 2020 and 31 December 2019 are as follows:

Location	Description	Gross land area (sqm)	Gross built-in area (sqm)	Remaining tenure	Use of property
Malaysia					
Lot 10645, Jalan Permata 1/6, Arab Malaysian Industrial Park, 71800 Nilai, Negeri Sembilan Darul Khusus, Malaysia	Freehold land and building	4,572	1,512	Freehold	Office, factory and warehouse
Lot 16140, No.117, Jalan Nilai 3/12, Kawasan Perindustrian Nilai 3, 71800 Nilai, Negeri Sembilan, Malaysia	Freehold land and building	669	223	Freehold	Factory
Lot No. 6546, Mukim 1, Daerah Seberang Perai Tengah, Pulau Pinang, Malaysia	Leasehold land and building	1,009	984	Ending on 30 September 2045	Office, factory and warehouse
Lot No. 6547, Mukim 1, Daerah Seberang Perai Tengah, Pulau Pinang, Malaysia	Leasehold land and building	1,009	984	Ending on 30 September 2045	Office, factory and warehouse
Lot 16681 in Mukim Setul, District Seremban, 71800 Nilai, Negeri Sembilan, Malaysia	Freehold land	5,233	-	Freehold	Office, factory and warehouse
China					
Building 20, Guanggu Witpark, Financial Harbour 1st Road, Guanggu Road, East Lake New-Tech Development Zone, Wuhan, Hubei, PRC	Leasehold land and building	63,415	1,494	Ending on 11 March 2061	4-storey office and warehouse

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
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4. RIGHT-OF-USE ASSETS

Group	Leasehold lands	Motor vehicles	Leasehold properties	Plant and equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Cost					
As at 1 January 2019	-	-	-	-	-
Recognition of ROU assets on adoption of SFRS(I) 16	-	34	531	18	583
Transfer from property, plant and equipment (Note 3)	182	115	-	-	297
Additions	-	80	129	-	209
Currency translation differences	(1)	(1)	*	-	(2)
As at 31 December 2019	181	228	660	18	1,087
As at 1 January 2020	181	228	660	18	1,087
Increase arising from lease modifications	-	-	378	-	378
Additions	-	-	215	18	233
Disposals	-	-	-	(18)	(18)
Currency translation differences	*	*	*	1	1
As at 31 December 2020	181	228	1,253	19	1,681
Accumulated depreciation and impairment loss					
As at 1 January 2019	-	-	-	-	-
Transfer from property, plant and equipment (Note 3)	44	8	-	-	52
Charge for the year	4	36	276	4	320
Currency translation differences	*	*	*	-	*
As at 31 December 2019	48	44	276	4	372
As at 1 January 2020	48	44	276	4	372
Charge for the year	3	59	351	4	417
Disposals	-	-	-	(8)	(8)
Currency translation differences	*	*	*	*	*
As at 31 December 2020	51	103	627	*	781
Net carrying amount					
As at 31 December 2020	130	125	626	19	900
As at 31 December 2019	133	184	384	14	715

* Amount less than \$1,000.

The Group leases several assets such as leasehold lands, office premises / warehouse / hostel, plant and equipment and motor vehicles. The lease term ranges from 2 to 6 years (2019: 1 to 5 years) except for a lease of land in Malaysia for 25 years which has been fully paid upfront. There are no restrictions or covenants imposed by the lease contracts. The corresponding lease liabilities is disclosed in in Note 13.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

5. INTANGIBLE ASSETS

Group	Goodwill on consolidation	Trade name and trademarks	Patented technologies and license	Computer software and others	Total
	\$’000	\$’000	\$’000	\$’000	\$’000
Cost					
Balance at 1 January 2019	924	4,312	4,995	137	10,368
Acquisition of a subsidiary (Note 6(b)(i))	2,535	-	-	-	2,535
Currency translation differences	-	(112)	(130)	(4)	(246)
Balance at 31 December 2019	3,459	4,200	4,865	133	12,657
Balance at 1 January 2020	3,459	4,200	4,865	133	12,657
Addition	-	-	-	1	1
Disposal of a subsidiary (Note 6(b)(ii))	(2,535)	-	-	-	(2,535)
Currency translation differences	-	204	236	8	448
Balance at 31 December 2020	924	4,404	5,101	142	10,571
Accumulated amortisation and impairment losses					
Balance at 1 January 2019	19	1,694	2,876	113	4,702
Amortisation for the financial year (Note 21)	-	614	1,041	14	1,669
Impairment loss for the financial year (Note 21)	-	1,995	925	-	2,920
Currency translation differences	-	(103)	(119)	(5)	(227)
Balance at 31 December 2019	19	4,200	4,723	122	9,064
Balance at 1 January 2020	19	4,200	4,723	122	9,064
Amortisation for the financial year (Note 21)	-	-	148	5	153
Currency translation differences	-	204	230	9	443
Balance at 31 December 2020	19	4,404	5,101	136	9,660
Net carrying amount					
As at 31 December 2020	905	-	-	6	911
As at 31 December 2019	3,440	-	142	11	3,593

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

5. INTANGIBLE ASSETS (Continued)

Impairment loss

During the previous financial year ended 31 December 2019, the Group carried out a review of the recoverable amount of its intangible assets in Engineered Environmental (“EE”) Systems segment because Wuhan Kaidi Water Services Co., Ltd (“WHKD”), a major subsidiary of the Group has recorded a net loss. The Group’s financial performance and financial position are mainly contributed by WHKD. Management considered WHKD as a cash-generating unit (“CGU”) that generates cash flows from Engineered Environmental (“EE”) Systems segment that are largely independent from other subsidiaries in the segment.

An impairment loss of \$2,920,000, representing the write-down to the recoverable amount was recognised in “administrative expenses” in profit or loss for the previous financial year ended 31 December 2019. The recoverable amount of the CGU is determined based on its value in use with a pre-tax discount rate of 11.06%.

Amortisation

Amortisation expenses included in the profit or loss are analysed as follows:

	Group	
	2020 \$’000	2019 \$’000
Administrative expenses	153	1,669

The carrying amount and the remaining amortisation period of the intangible assets are mainly as follows:

	Group			
	Carrying amount		Remaining amortisation period	
	2020 \$’000	2019 \$’000	2020 Months	2019 Months
Licence to use technology	-	142	-	9

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

5. INTANGIBLE ASSETS (Continued)

Impairment testing of goodwill

Goodwill acquired through business combinations are allocated to the Group’s cash-generating units (“CGUs”) that are expected to benefit from that business combinations. The carrying amount of goodwill before impairment is as follows:

	2020 \$’000	2019 \$’000
Indonesia ⁽ⁱ⁾	-	2,535
Singapore ⁽ⁱⁱ⁾	905	905
Malaysia ⁽ⁱⁱⁱ⁾	4	4
PRC ⁽ⁱⁱⁱ⁾	15	15
	924	3,459

⁽ⁱ⁾ This pertains to PT Panghegar Energy Indonesia (“PEI”) (Note 6(b)(ii)) which has been disposed during the financial year.

⁽ⁱⁱ⁾ This pertains to PV Vacuum Engineering Pte. Ltd. (“PV Vacuum”).

⁽ⁱⁱⁱ⁾ Fully impaired in the previous financial years.

PT Panghegar Energy Indonesia and its subsidiary (“PEI Group”)

The recoverable amount of the CGU was determined based on value-in-use calculations.

In determining value-in-use, the Group prepared 25-year cash flows projections which were based on the following key assumptions:

	Group 2019
Conversion rate ⁽¹⁾	35%
Gross margin ⁽²⁾	53%
Discount rate ⁽³⁾	8%

⁽¹⁾ Conversion rate from solid waste into a specific type of fuel

⁽²⁾ Budgeted gross margin

⁽³⁾ Pre-tax discount rate applied to the pre-tax cash flow projections

Cash flows projection was based on the 25-years financial budgets approved by the management because revenue was calculated based on terms of the 25-years concession agreement with the regional government and terms of the fuel off-take agreement with a third party, which included guaranteed quantities and prices over the contractual period.

Gross margin was budgeted based on the projected gross margin for the operations.

Sensitivity to changes in assumptions

The management believes that there is no reasonably possible change in the above key assumptions applied that is likely to materially cause the respective cash-generating unit carrying amount to exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (" \$'000"))

5. INTANGIBLE ASSETS (Continued)

Impairment testing of goodwill (Continued)

PV Vacuum Engineering Pte. Ltd. ("PV") – "EE" segment

The recoverable amount of the CGU is determined based on value-in-use calculations.

In determining value-in-use, the Group prepares cash flows projections with indefinite period (2019: 10-year cash flows projections) based on the most recent financial budgets approved by the management covering a five-year period, which are based on the following key assumptions:

	Group	
	2020	2019
	%	%
Growth rate ⁽¹⁾		
- Industrial	0 to 5	0 to 5
Gross margin ⁽²⁾		
- Municipal	27	29
- Industrial	48	48
Discount rate ⁽³⁾	6	6

⁽¹⁾ Growth rate in revenue

⁽²⁾ Budgeted gross margin

⁽³⁾ Pre-tax discount rate applied to the pre-tax cash flow projections

In extrapolating the cash flows beyond the budget periods, the management assumed zero growth rate.

Municipal projects

Revenue from municipal projects and the subsequent maintenance income is budgeted based on secured and estimated tendered contract value of project as at reporting date. Management expects that PV Vacuum will continue to be awarded with contracts with similar contract sum on an annual basis as achieved in the track records since 2016. Gross margin is budgeted based on the historical track records for the past 5 years (2019: 4 years) for those projects.

Industrial

Management expects that PV Vacuum will be able to achieve annual organic growth rate of 5% (2019: 5%) for the next 5 years for vacuum system projects from industrial customers, which is consistent with the industry growth rate forecast. Gross margin is budgeted based on the historical track records for the past 5 years (2019: 4 years).

The discount rates used are pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs.

Sensitivity to changes in assumptions

Management is confident that PV Vacuum will be able to continue to secure municipal projects having established track records with its existing projects and expects PV Vacuum to at least achieve revenue from municipal projects at the average recorded level for the past 5 years (2019: 4 years). With such budget and expectation, management believes that no reasonably possible changes in any of the above key assumptions individually or in combination would cause the carrying amount of the CGU to materially exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

6. INVESTMENT IN SUBSIDIARIES

	Company	
	2020 \$’000	2019 \$’000
Unquoted equity shares, at cost		
At beginning of the financial year	22,418	17,324
Add:		
- Acquisition of a subsidiary (Note (b)(i))	-	2,053
- Disposal of a subsidiary (Note (b)(ii))	(2,053)	-
- Additional equity interest in subsidiary (Note (d))	-	2,000
- Capital contribution by capitalising loan (Note (e))	-	1,041
At end of the financial year	20,365	22,418
Less: Impairment losses		
At beginning of the financial year	(2,679)	(2,679)
Add: Impairment loss	(467)	-
At end of the financial year	(3,146)	(2,679)
Net carrying amount	17,219	19,739

(a) Details of the subsidiaries are as follows:

Name	Principal activities	Country of incorporation and place of business	Proportion (%) of ownership interests	
			2020	2019
Held by the Company				
Darco Engineering Pte. Ltd. ⁽¹⁾	Investment holding, design and fabrication of water treatment systems and providing consultancy services in relation to such business	Singapore	100	100
Darco Water Systems Sdn. Bhd. (“DWS”) ⁽²⁾	Investment holding, design and fabrication of water treatment systems and providing consultancy services in relation to such business and trading in related industrial products	Malaysia	100	100
PV Vacuum Engineering Pte. Ltd. ⁽¹⁾	Design and supply of environmental related equipment, centralised vacuum systems, refuse conveying system and any other engineering systems making use of vacuum technologies	Singapore	100	100
Darco Infracore Vietnam Water Pte. Ltd. ⁽¹⁾	Investment holding	Singapore	51	51 (Note (e))

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

(Amounts in thousands of Singapore dollars (" \$'000"))

6. INVESTMENT IN SUBSIDIARIES (Continued)

(a) Details of the subsidiaries are as follows (Continued):

Name	Principal activities	Country of incorporation and place of business	Proportion (%) of ownership interests	
			2020 %	2019 %
Held by the Company (Continued)				
Wuhan Kaidi Water Services Co., Ltd. ⁽²⁾	Provision of comprehensive and integrated engineering solutions for water purification, water supply and wastewater treatment	The People's Republic of China ("PRC")	72	72
Darco Environment Vietnam Co. Ltd. ⁽³⁾	Investment holding, design and fabrication of water treatment systems and providing consultancy services in relation to such business	Vietnam	100	100
PT Panghegar Energy Indonesia ⁽⁵⁾	Investment holding	Indonesia	- (Note (b(ii)))	75 (Note (b)(i))
Held by subsidiaries				
Darco Environmental (Philippines) Inc. ⁽⁶⁾	Design, installation and commissioning of treatment systems for water purification, treatment of waste water and other waste discharge for industrial use, providing services and supplying chemicals and components used in manufacturing and maintenance water treatment systems	Philippines	- (Note (c))	65
Shanghai Darco Engineering Co., Ltd. ⁽⁴⁾	Design and fabrication of water treatment systems and provision of consultancy services in relation to such business	PRC	100	100
Darco Industrial Water Sdn. Bhd. ⁽²⁾	Designing, installing, setting up and maintaining of industrial waste 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	Malaysia	100	100
WWMG Environmental Sdn. Bhd. ⁽²⁾	Investment holding	Malaysia	100	100

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

6. INVESTMENT IN SUBSIDIARIES (Continued)

(a) Details of the subsidiaries are as follows (Continued):

Name	Principal activities	Country of incorporation and place of business	Proportion (%) of ownership interests	
			2020 %	2019 %
Held by subsidiaries (Continued)				
Ness Plus Trading Sdn. Bhd. ⁽²⁾	Designing, fabricating and constructing pure and waste water treatment plants and trading in related industrial products	Malaysia	100	100
Grober Industrial Services Sdn. Bhd. ⁽²⁾	Supplying of all kinds of industrial equipment and industrial services	Malaysia	100	100
Darco Remediation Technologies Inc. ⁽²⁾	Design and fabrication of water treatment systems and providing consultancy services in relation to such business; solid waste disposal treatment and incineration; noise and vibration prevention engineering; soil pollution control engineering; environmental monitoring system	Taiwan	100	100
Puzer Asia Pte. Ltd. ⁽¹⁾	Trading in vacuum cleaning systems and provision of related services	Singapore	56	56
Darco Viet Water Company Limited ⁽³⁾	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	Vietnam	100	100
Darco Ba Lai Water Supply Limited ⁽³⁾	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	Vietnam	90	90
Darco Nghe An Company Limited ⁽³⁾	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	Vietnam	90	90
Darco Ha Tinh Company Limited ⁽³⁾	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	Vietnam	90	90

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
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6. INVESTMENT IN SUBSIDIARIES (Continued)

(a) Details of the subsidiaries are as follows (Continued):

Name	Principal activities	Country of incorporation and place of business	Proportion (%) of ownership interests	
			2020 %	2019 %
Held by subsidiaries (Continued)				
PT Jabar Bersih Lestari ⁽⁵⁾	Provision of Regional Final Waste Management and Treatment Infrastructure	Indonesia	- (Note (b)(ii))	80

(1) Audited by Crowe Horwath First Trust LLP, Singapore.

(2) Audited by member firms of Crowe Global in the respective countries.

(3) Audited by BDO, Vietnam.

(4) Audited by a CPA firm in PRC.

(5) Disposed during the financial year (Note (b)(ii)).

(6) Liquidated during the financial year (Note (c)).

(b) PT Panghegar Energy Indonesia ("PEI") and its subsidiary, PT Jabar Bersih Lestari ("JBL") ("collectively known as PEI Group")

(i) Acquisition in financial year 2019

On 1 November 2019, the Company announced that on the same date, the Company had entered into a conditional sale and purchase agreement ("SPA") with Emsus Co., Ltd. ("Emsus") to acquire 75% of the total equity interest in the registered capital of PEI for cash consideration of US\$1,500,000 approximately \$2,053,000.

Emsus was the owner of 6,800 shares (representing in aggregate 85% of the total number of issued and paid up share capital) in PEI, while PEI is the owner of 40,000 shares (representing in aggregate approximately 80% of the total number of issued and paid up share capital) in JBL.

PEI is purely an investment holding company, which owns the Project Company – JBL.

JBL is an Indonesia-incorporated company that specialises in the operation of waste management facilities. JBL has entered into a cooperation agreement (the "Cooperation Agreement") with the West Java Province Regional Government of Indonesia to provide waste management services in Bogor City, Bogor Regency and Depok City in Indonesia (the "Project").

On 12 December 2019, the 75% equity shares in PEI were transferred to the Company and the Company had majority board representation. Management determined then, that control had been obtained as of this date (the "Acquisition date"). Upon the Acquisition date, PEI and its 80% owned subsidiary, JBL became subsidiaries of the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

6. INVESTMENT IN SUBSIDIARIES (Continued)

(b) PT Panghegar Energy Indonesia and its subsidiary, PT Jabar Bersih Lestari (“collectively known as PEI Group”) (Continued)

(i) Acquisition in financial year 2019 (Continued)

The Group elected to measure the non-controlling interest at the non-controlling interest’s proportionate share of PEI Group’s identifiable net assets. The provisional fair value of the identifiable assets and liabilities of PEI Group as at the acquisition date were:

	Group
	2019
	\$’000
Cash and bank balances	109
Property, plant and equipment	1,134
Deferred tax assets	282
Trade and other receivables	262
Trade and other payables	(2,353)
	<hr/>
Total identifiable net liabilities at carrying amount	(566)
	<hr/>
Purchase consideration	2,053
Non-controlling interest measured at the non-controlling interest’s proportionate share of PEI Group’s net identifiable liabilities	(84)
Less: Total identifiable net liabilities at carrying amount	566
	<hr/>
Goodwill arising from acquisition	2,535
	<hr/>

* The acquisition occurred close to the end of the financial year, the fair value of assets acquired and liabilities recognised presented and the resultant goodwill was provisionally determined based on the management’s best estimate of the likely values and may be subject to changes upon the completion and finalisation of the purchase price allocation exercise within the subsequent measurement period for a maximum of one year as allowed by SFRS(I) 3: *Business Combinations*.

Effect of the acquisition of PEI Group

	\$’000
Total consideration paid in cash as at 31 December 2019 #	1,783
Less: Cash and bank balances of subsidiaries acquired	(109)
	<hr/>
Net cash outflows on acquisition of subsidiaries	1,674
	<hr/>

The final payment of US\$200,000 (equivalent to \$270,000, included in other payables) was payable after fulfilment of all ‘conditions subsequent’ as stated in the conditional sale and purchase agreement, including satisfactory completion of the Company’s business, environmental, financial, tax and legal due diligence (in the Company’s sole discretion) on PEI and JBL, as announced by the Company on 4 November 2019. The Company had the option to reverse and unwind the sale and purchase of the shares in PEI by disposing shares in PEI to Emsus for a full consideration previously paid (the “Option”) if the ‘conditions subsequent’ were not satisfied by their stipulated deadlines.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (" \$'000"))

6. INVESTMENT IN SUBSIDIARIES (Continued)

(b) PT Panghegar Energy Indonesia and its subsidiary, PT Jabar Bersih Lestari ("collectively known as PEI Group") (Continued)

(i) Acquisition in financial year 2019 (Continued)

PEI did not contribute any revenue or profit to the consolidated profit or loss for 2019 since acquisition in December 2019 as the Project is still under development and has yet to commence construction. For the same reason, there would not have been any material changes to the consolidated profit or loss for the financial year 2019 had the acquisition been completed at the beginning of the previous financial year.

(ii) Disposal in financial year 2020

On 27 July 2020, the Company exercised the Option to reverse the 75% equity interest acquired in PEI for US\$1,300,000 (equivalent to approximately \$1,739,000) representing consideration previously paid. On 26 November 2020, the Group entered into a deed of settlement with Emsus and has agreed on the instalment plans to repay US\$500,000 (first settlement payment), US\$500,000 (second settlement payment) and US\$313,000 (third settlement payment) by December 2020, October 2021 and October 2022 respectively. Based on the salient terms of the deed of settlement, PEI and its 80% owned subsidiary, JBL ceased to be subsidiaries of the Group with effect from 26 November 2020. The effects of the disposal on the cash flows of the Group were:

	Group 26 November 2020 \$'000
<u>Carrying amounts of assets and liabilities disposed of</u>	
Property, plant and equipment	1,138
Goodwill	2,535
Deferred tax assets	276
Trade and other receivables	262
Cash and bank balances	8
Total assets	4,219
Trade and other payables	(2,300)
Amount owing to holding company	(20)
Total liabilities	(2,320)
Net assets derecognised	1,899
Less: Non-controlling interests	117
Net assets disposed of	2,016

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
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6. INVESTMENT IN SUBSIDIARIES (Continued)

(b) PT Panghegar Energy Indonesia and its subsidiary, PT Jabar Bersih Lestari (“collectively known as PEI Group”) (Continued)

(ii) Disposal in financial year 2020 (Continued)

The aggregate gain or loss and the cash inflows arising from the disposal of PEI Group were:

	Group
	2020
	\$’000
Proceeds from disposal ⁽ⁱ⁾	1,832
Net assets disposed of (as above)	(2,016)
Reclassification of foreign currency translation reserve	77
	<hr/>
Loss on disposal, included in Administrative expenses (Note 21)	(107)
	<hr/>
Cash proceeds from disposal	1,739
Less: Fair value adjustment on disposal consideration	(155)
	<hr/>
	1,584
Less: Cash and bank balances in subsidiaries disposed of	(8)
Less: Amount owing by Emsus, included in other receivables (Note 9)	(1,584)
	<hr/>
Net cash outflow on disposal	(8)
	<hr/>
(i) <u>Proceeds from disposal</u>	
Cash proceeds from disposal	1,739
Less: Fair value adjustment on disposal consideration	(155)
	<hr/>
Fair value of cash consideration	1,584
Add: Amount offset against other payables *	248
	<hr/>
Total consideration	1,832
	<hr/>

* For the final outstanding amount on the acquisition of PEI Group of US\$200,000 (equivalent to approximately \$268,000), a portion of US\$13,000 (equivalent to approximately \$20,000) pertains to a loan given during the year has been treated as part of the final payment and the remaining amount of US\$187,000 (equivalent to approximately \$248,000) are reversed against the amount classified under other payables.

(c) Liquidation of Darco Environmental (Philippines) Inc (“DEP”)

On 1 March 2020, a subsidiary of the Group, Darco Engineering Pte. Ltd. agreed to transfer its shareholding in DEP to other shareholders as appointed agent with effect from 16 March 2020. The transfer is deemed to be a liquidation of DEP as the Group transferred the shareholdings to the appointed agent solely to facilitate the liquidation and winding-up process at a nominal consideration of \$1.00. The effects of the disposal on the cash flows of the Group were:

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (" \$'000"))

6. INVESTMENT IN SUBSIDIARIES (Continued)

(c) Liquidation of Darco Environmental (Philippines) Inc ("DEP") (Continued)

	Group 16 March 2020 \$'000
<u>Carrying amounts of assets and liabilities disposed of</u>	
Trade and other receivables	8
Cash and bank balances	80
	<hr/>
Total assets	88
	<hr/>
Trade and other payables, represents total liabilities	(68)
	<hr/>
Net assets derecognised	20
Less: Non-controlling interests	102
	<hr/>
Net assets disposed of	122
	<hr/>

The aggregate gain or loss and the cash inflows arising from the liquidation of DEP were:

	DEP 2020 \$'000
Proceeds from disposal ⁽ⁱ⁾	*
Net assets disposed of (as above)	(122)
Reclassification of foreign currency translation reserve	141
	<hr/>
Gain on liquidation, included in Administrative expenses (Note 21)	19
	<hr/>
Cash proceeds from disposal	*
Less: Cash and bank balances in subsidiaries disposed of	(80)
	<hr/>
Net cash outflow on disposal	(80)
	<hr/>

* Amount less than \$1,000.

(d) During the previous financial year ended 31 December 2019, the Company has further subscribed for an additional 2,000,000 new ordinary shares in its wholly owned subsidiary, PV Vacuum Engineering Pte. Ltd. for an amount of \$2,000,000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

6. INVESTMENT IN SUBSIDIARIES (Continued)

- (e) During the previous financial year ended 31 December 2019, Darco Infraco Vietnam Water Pte. Ltd. (“DIVW”) issued and allotted 2,040,815 new ordinary shares at the subscription price of \$1.00 for each new ordinary share. The Company capitalised outstanding loan amount of approximately \$1,041,000 due from DIVW and disposed of 49% of the equity interest in DIVW for a cash consideration of \$1,000,000 without a change in the controls over DIVW.

	<u>Group</u>
	2019
	\$’000
Carrying amount of non-controlling interest created	763
Cash consideration paid by non-controlling interest	(1,000)
	<hr/>
Difference directly recognised in equity (Note 16(a))	(237)
	<hr/>

- (f) Interest in subsidiaries with non-controlling interest (“NCI”)

- (i) The Group has the following subsidiaries that have NCI to the Group.

Name of subsidiary	Proportion (%) of ownership interests and voting rights held by NCI	
	2020	2019
	%	%
<u>With material NCI</u>		
Wuhan Kaidi Water Services Co., Ltd (“WHKD”)	28	28
<u>With immaterial NCI</u>		
Darco Environmental (Philippines) Inc.	-	35
Puzer Asia Pte. Ltd.	44	44
Darco Infraco Vietnam Water Pte. Ltd.	49	49
Darco Ba Lai Water Supply Limited	10	10
Darco Nghe An Company Limited	10	10
Darco Ha Tinh Company Limited	10	10
PT Panghegar Energy Indonesia	-	25
PT Jabar Bersih Lestari	-	20

- (ii) The carrying value of NCI to the Group is as follow:

	<u>2020</u>	<u>2019</u>
	\$’000	\$’000
WHKD	3,220	2,742
Other subsidiaries with immaterial NCI	497	519
	<hr/>	<hr/>
Total	3,717	3,261
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (" \$'000"))

6. INVESTMENT IN SUBSIDIARIES (Continued)

(f) Interest in subsidiaries with non-controlling interest ("NCI") (Continued)

(iii) The following summarises the financial information of WHKD, based on its respective financial statements prepared in accordance with SFRS(I), modified for fair value adjustment on acquisition.

	2020 \$'000	2019 \$'000
Revenue	40,728	29,997
Profit / (Loss)	1,242	(9,018)
Other comprehensive income / (loss)	467	(70)
Total comprehensive income / (loss)	1,709	(9,088)
Attributable to NCI:		
- Profit / (Loss)	348	(2,525)
- Other comprehensive profit / (loss)	131	(20)
Total comprehensive profit / (loss)	479	(2,545)
Non-current assets	2,964	2,833
Current assets	45,582	53,680
Non-current liabilities	(59)	(259)
Current liabilities	(36,987)	(46,600)
Net assets	11,500	9,654
Accumulated NCI of the subsidiaries at end of financial year		
	3,220	2,742
Cash flows from operating activities	512	2,586
Cash flows used in investing activities	(1)	(3)
Cash flows used in financing activities	(2,108)	(944)

(iv) Significant restrictions

The nature and extent of significant restriction of the Group's ability to use or access assets and settle liabilities of subsidiaries with material NCI are:

Cash and bank balances of WHKD as at 31 December 2020 held in PRC are subject to local exchange control regulations. These regulations place restriction on the amount of currency being exported other than through dividends. Refer to Note 10 to the financial statements for further details.

NOTES TO THE FINANCIAL STATEMENTS

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(Amounts in thousands of Singapore dollars (“\$’000”))

7. DEFERRED TAX ASSETS / (LIABILITIES)

	Group	
	2020 \$’000	2019 \$’000
At beginning of the financial year	625	(467)
Addition arising from acquisition of subsidiaries (Note 6(b)(i))	-	282
Reversal arising from disposal of a subsidiary (Note 6(b)(ii))	(276)	-
Recognised in the profit or loss (Note 22)	46	827
Currency translation differences	12	(17)
	<u>407</u>	<u>625</u>
At end of the financial year	407	625
Presented after appropriate offsetting as follows:		
Deferred tax assets	410	653
Deferred tax liabilities	(3)	(28)
	<u>407</u>	<u>625</u>

The components and movement of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax assets of the Group	Impairment loss on financial assets	Others *	Total
	\$’000	\$’000	\$’000
2020			
At beginning of the financial year	367	286	653
Reversal arising from disposal of a subsidiary (Note 6(b)(ii))	-	(276)	(276)
Recognised in the profit or loss	21	-	21
Currency translation differences	17	(5)	12
	<u>405</u>	<u>5</u>	<u>410</u>
At end of the financial year	405	5	410
2019			
At beginning of the financial year	117	55	172
Addition arising from acquisition of a subsidiary (Note 6(b)(ii))	-	282	282
Recognised in the profit or loss	260	(51)	209
Currency translation differences	(10)	**	(10)
	<u>367</u>	<u>286</u>	<u>653</u>
At end of the financial year	367	286	653

* Others mainly comprised unutilised tax losses and provision.

** Amount less than \$1,000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
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7. DEFERRED TAX ASSETS / (LIABILITIES) (Continued)

Deferred tax liabilities of the Group	Fair value adjustments on acquisition of a subsidiary	Tax over book depreciation	Total
	\$'000	\$'000	\$'000
2020			
At beginning of the financial year	-	28	28
Recognised in the profit or loss	-	(25)	(25)
Currency translation differences	-	**	**
At end of the financial year	-	3	3
2019			
At beginning of the financial year	590	49	639
Recognised in the profit or loss	(590)	(28)	(618)
Currency translation differences	-	7	7
At end of the financial year	-	28	28

Deferred tax assets have not been recognised in respect of the following:

Group	2020	2019	Jurisdiction	Expiring year
	\$'000	\$'000		
Unabsorbed tax losses	10,063	8,580	Singapore / Philippines / Malaysia / Taiwan	Indefinite
* Unabsorbed tax losses arising from financial year of:				
- 2015	-	527	PRC	2020
- 2016	799	762	PRC	2021
- 2017	533	509	PRC	2022
- 2018	1,129	1,119	PRC / Vietnam	2023
- 2019	4,947	5,179	PRC / Vietnam	2024
- 2020	183	-	PRC / Vietnam	2025
	7,591	8,096		
	17,654	16,676		
Unabsorbed capital allowances	83	39	Malaysia	Indefinite
Provisions	844	1,331	Singapore / Malaysia / Vietnam	Indefinite
Tax over book depreciation	(179)	(239)	Singapore / Malaysia	Indefinite
	18,402	17,807		

* The tax losses expired by the end of 5 years from the losses recorded in the respective financial years.

** Amount less than \$1,000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

7. DEFERRED TAX ASSETS / (LIABILITIES) (Continued)

Company	2020	2019	Jurisdiction	Expiring year
	\$’000	\$’000		
Provisions	40	15	Singapore	Indefinite
Unabsorbed tax losses	6,068	4,817	Singapore	Indefinite
	<u>6,108</u>	<u>4,832</u>		

The unabsorbed tax losses, capital allowances and other deductible temporary differences that can be carried forward and used to offset against future taxable income are subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries. Deferred tax assets have not been recognised in respect of these items due to the uncertainty of its recoverability in foreseeable future.

8. INVENTORIES

	Group	
	2020	2019
	\$’000	\$’000
Raw materials	585	4,810
Trading goods	1,231	1,376
	<u>1,816</u>	<u>6,186</u>

9. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2020	2019	2020	2019
	\$’000	\$’000	\$’000	\$’000
Non-current				
Other receivables - A third party ⁽ⁱ⁾	378	-	378	-
Refundable deposits ⁽ⁱⁱ⁾	1,066	-	1,066	-
Less: Allowance for impairment losses	(120)	-	(120)	-
	<u>946</u>	<u>-</u>	<u>946</u>	<u>-</u>
	<u>1,324</u>	<u>-</u>	<u>1,324</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (" \$'000"))

9. TRADE AND OTHER RECEIVABLES (Continued)

	Group		Company	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Current				
Trade receivables:				
- Third parties	19,799	27,882	-	-
Less: Allowance for impairment losses (Note 28(iii))	(774)	(1,542)	-	-
Trade receivables, net (Note 17(b))	19,025	26,340	-	-
Contract assets	34,562	24,808	-	-
Less: Allowance for impairment losses (Note 28(iii))	(3,155)	(2,598)	-	-
Contract assets, net (Note 17(b))	31,407	22,210	-	-
Other receivables:				
- Third parties ⁽ⁱ⁾	5,107	2,992	1,339	1
- Subsidiaries (non-trade)	-	-	24,670	24,866
	5,107	2,992	26,009	24,867
Less: Allowance for impairment losses				
- Third parties	(1,690)	(1,677)	-	-
- Subsidiaries (non-trade)	-	-	(11,651)	(10,756)
Other receivables, net	3,417	1,315	14,358	14,111
Refundable deposits ⁽ⁱⁱ⁾	3,410	4,227	251	1,349
Less: Allowance for impairment losses	(184)	(97)	(65)	-
Refundable deposits, net	3,226	4,130	186	1,349
Staff loans	734	820	1	-
Less: Allowance for impairment losses	(9)	-	-	-
Staff loans, net	725	820	1	-
Prepayments	848	380	22	19
Advances to suppliers	2,168	7,048	-	-
GST / VAT receivables	364	264	12	8
	61,180	62,507	14,579	15,487

Trade receivables

Trade receivables are non-interest bearing with credit term of 30 to 90 days (2019: 30 to 90 days).

Contract assets

Included in contract assets are retention sum of RMB36,950,000, equivalent to approximately \$7,483,000 (2019: RMB30,491,000, equivalent to approximately \$5,889,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

9. TRADE AND OTHER RECEIVABLES (Continued)

Subsidiaries (non-trade)

These are unsecured, interest-free and repayable on demand.

Staff loans

These are unsecured, interest-free and repayable on demand.

(i) Included in gross carrying amount of other receivables - third parties comprise mainly of the following:

Group

- an amount of \$143,000 (2019: Nil) government grant receivables which mainly comprise grant receivables in respect of Jobs Support Scheme (JSS), details of which are disclosed in Note 18 to the financial statements.
- a loan to a former subsidiary of the Group amounting to NTD13,731,000, equivalent to approximately \$647,000 (2019: \$617,000) included in current assets, with the following terms:
 - Bears fixed interest at the Taiwan’s base lending rate 2.616% per annum, payable at maturity.
 - 3-years terms with a maturity date on 19 December 2020.
 - guaranteed by an individual who is the director of the former subsidiary.

Full ECL allowance has been recognised in previous financial year ended 31 December 2019 as that former subsidiary entered into bankruptcy proceedings and the Group does not expect to recover any balance from the proceedings or guarantor.

Group and Company

- an amount of US\$1,300,000 (equivalent to approximately \$1,739,000) paid to Emsus Co., Ltd. (“Emsus”) to acquire 75% of the total equity interest in the registered capital of PT Panghegar Energy Indonesia (“PEI”) together with a loan amounting to US\$13,000 (equivalent to approximately \$20,000) given to PEI during the financial year.

On 27 July 2020, the Company exercised the option to reverse the acquisition (Note 6(b)(ii)). On 26 November 2020, the Group has entered into deed of settlement with Emsus to repay the amount of US\$1,313,000 over 3 instalments, which is guaranteed by the shareholder of Emsus, Mr. Do Yun Yu. The amount presented under current assets and non-current assets are US\$913,000 and US\$286,000 (equivalent to approximately \$1,206,000 and \$378,000) respectively. Subsequent to the financial year end, the Group has received US\$300,000 (equivalent to approximately \$397,000) and has agreed to defer the remaining US\$200,000 of the first settlement payment to latest by 31 July 2021.

(ii) Included in the refundable deposits comprise mainly of the following:

Group and Company

- an amount of US\$985,000 (equivalent to approximately \$1,305,000) (2019: US\$1,000,000, equivalent to approximately \$1,349,000) being paid in the previous financial year ended 31 December 2019 as part-payment under a framework agreement entered into by the Group with a counterparty (“Vendor”) with the intention to acquire 90% equity interest in a company in Vietnam (“intended acquisition”) for a total purchase consideration of US\$2,970,000 (equivalent to approximately \$3,934,000) (2019: US\$2,970,000 (equivalent to approximately \$4,007,000)). This would allow the Group to carry out due diligence and valuation work before entering into a definitive Sale and Purchase Agreement with the Vendor. Based on the due diligence and valuation work results, the Group has determined that the project is not viable due to a number of technical issues and unable to proceed with the intended acquisition. On 27 April 2020, the Group has come into an agreement with the Vendor to repay the deposits over 66 monthly instalments commencing from June 2020. On 25 November 2020, the Group has entered into deed of settlement with the Vendor to revise the repayment term to repay the deposits over 48 monthly instalments commencing from January 2021. The amount is guaranteed by an individual, who is the shareholder of the Vendor.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

(Amounts in thousands of Singapore dollars (“\$’000”))

9. TRADE AND OTHER RECEIVABLES (Continued)

(ii) Included in the refundable deposits comprise mainly of the following (Continued):

Group and Company (Continued)

The amount presented under current assets and non-current assets are US\$173,000 and US\$714,000 (equivalent to approximately \$229,000 and \$946,000) respectively. Subsequent to the financial year end, the Group has received three instalment payment as per schedule amounting to US\$45,000 (equivalent to approximately \$60,000).

Group

- an amount of RMB6,000,000, equivalent to approximately \$1,215,000 (2019: RMB6,000,000, equivalent to approximately \$1,159,000) being paid to a Director of the Company, Wang Zhi under a non-binding Letter of Intent dated 5 November 2018 in respect of a proposed investment in a Build-Operate-Transfer (“BOT”) project in Hebei, China for a total consideration of RMB60,000,000, equivalent to approximately \$12,151,000 (2019 RMB60,000,000, equivalent to approximately \$11,588,000), as announced by the Company on the same date. The transaction is subject to the findings of the due diligence by the Group before entering into a legal binding agreement. The proposed investment is part of the Director’s obligation to transfer the Group a BOT water treatment asset within 24 months upon the Company’s share placement to him on 27 March 2018, which is further extended for 24 months to 23 March 2022.

10. CASH AND BANK BALANCES

	Group		Company	
	2020 \$’000	2019 \$’000	2020 \$’000	2019 \$’000
Cash at bank and on hand	16,578	21,523	1,965	2,944
Fixed deposits ⁽ⁱ⁾	2,428	5,897	-	3,397
Cash and bank balances as per statements of financial position	19,006	27,420	1,965	6,341
Less: Fixed deposits pledged	(2,182)	(2,236)		
Less: Fixed deposits with tenure more than 3 months pledged	(173)	-		
Less: Bank balances pledged	(1,512)	(2,747)		
	(3,867)	(4,983)		
Less: Fixed deposits with tenure more than 3 months	(73)	(114)		
Less: Bank overdraft (Note 12)	(2,129)	(2,144)		
Cash and cash equivalents as per consolidated statement of cash flows	12,937	20,179		

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

10. CASH AND BANK BALANCES (Continued)

- (i) Fixed deposits of the Group and the Company bear interest rates ranging from 0.80% to 1.85% and Nil (2019: 0.05% to 5.02% and 0.60% to 1.45%) per annum respectively and have a maturity period ranging from 1 to 6 months and Nil (2019: 1 to 7 months and 1 month) respectively from the reporting date.

The movement in pledged fixed deposits and bank balances:

	Group	
	2020 \$’000	2019 \$’000
At beginning of the financial year	4,983	3,614
Placement of pledged bank balances	193	5,584
Withdrawn of pledged fixed deposits and bank balances	(1,428)	(4,137)
Currency translation differences	119	(78)
At end of the financial year	3,867	4,983

These amounts are pledged in connection with the credit facilities by way of performance, banker and tender guarantees granted by the banks.

As at 31 December 2020, the Group has bank balances placed with banks in PRC denominated in Chinese Renminbi (“RMB”) amounting to \$5,063,000 or RMB24,999,000 (2019: \$7,671,000 or RMB39,730,000). The RMB is not freely convertible into foreign currencies. Under PRC’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

11. TRADE AND OTHER PAYABLES

	Group		Company	
	2020 \$’000	2019 \$’000	2020 \$’000	2019 \$’000
Trade payables:				
- Third parties	22,091	18,754	-	-
Contract liabilities (Note 17(b))	14,359	27,378	-	-
Other payables:				
- Third parties	649	3,324	134	309
- Subsidiaries (non-trade) (i)	-	-	1,232	227
- A related party (non-trade) (i)	81	-	-	-
- An individual shareholder (i)	14	-	-	-
Amount owing to a director (i)	-	12	-	-
Accruals	2,041	2,951	154	856
GST payables	91	33	-	-
Provision for unutilised leave	144	140	40	19
	39,470	52,592	1,560	1,411

- (i) Amount due to subsidiaries, a related party, an individual shareholder and a director are unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (" \$'000"))

12. BORROWINGS

Group		Current	Non-current	Total
		\$'000	\$'000	\$'000
2020				
<u>Secured</u>	<u>Final maturity</u>			
Bank overdraft (Note 10)	On demand	2,129	-	2,129
Term loan I ⁽ⁱ⁾	26 November 2032	6	86	92
Term loan III ⁽ⁱ⁾	31 July 2021	31	-	31
Term loan V ⁽ⁱ⁾	16 March 2022	238	59	297
Term loan VII ⁽ⁱ⁾	30 April 2034	51	873	924
Term loan IX ⁽ⁱ⁾	27 May 2023	800	-	800
Term loan X ⁽ⁱ⁾	11 September 2025	800	-	800
<u>Unsecured</u>				
Loans from directors of the Company:				
- Mr. Wang Zhi ^(v)	On demand	1,325	-	1,325
		5,380	1,018	6,398
2019				
<u>Secured</u>	<u>Final maturity</u>			
Bank overdraft (Note 10)	On demand	2,144	-	2,144
Term loan I ⁽ⁱ⁾	26 November 2032	5	90	95
Term loan III ⁽ⁱ⁾	31 July 2021	51	31	82
Term loan V ⁽ⁱ⁾	16 March 2022	251	259	510
Term loan VII ⁽ⁱ⁾	30 April 2034	50	930	980
Term loan VIII ⁽ⁱⁱ⁾	7 August 2020	579	-	579
Trust receipts ⁽ⁱⁱⁱ⁾	2020	1,959	-	1,959
<u>Unsecured</u>				
Loans from directors of the Company:				
- Mr. Wang Zhi ^(iv)	22 March 2020	4,000	-	4,000
- Mr. Wang Zhi ^(v)	21 November 2020	1,349	-	1,349
- Wang Yaoyu ^(vi)	21 May 2020	218	-	218
Loan from a related party ^(vii)	5 September 2020	334	-	334
		10,940	1,310	12,250
Company				
2020				
<u>Unsecured</u>				
Loan from a director of the Company:				
- Mr. Wang Zhi ^(v)	On demand			1,325

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
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12. BORROWINGS (Continued)

Bank overdraft (Floating rate)

The bank overdrafts are secured by freehold land and building of a subsidiary and by corporate guarantee from the Company and bears an effective interest rate of 6.45% to 6.89% (2019: 7.70% to 8.14%) per annum.

Term loans

The term loans bear the interest rates as follows:

	Interest rate (per annum)	Group	
		2020	2019
Term loan I	Bank Lending Rate - 2.1%	3.37%	4.62%
Term loan III	Bank Lending Rate - 2.0%	3.45%	4.70%
Term loan V	Loan Prime Rate x 1.25	5.94%	5.94%
Term loan VII	Bank Lending Rate - 2.3%	3.15%	4.40%
Term loan VIII	Fixed rate	-	6.09%
Term loan IX	Fixed rate	2.75%	-
Term loan X	Fixed rate	2.50%	-

Reconciliation of liabilities arising from financing activities

Group	As at 1 January 2020 \$'000	Financing cash flows ⁽ⁱ⁾ \$'000	Non-cash changes				Currency translation difference \$'000	As at 31 December 2020 \$'000
			New leases \$'000	Termination of leases \$'000	Lease modification \$'000	Rental concessions ⁽ⁱⁱ⁾ \$'000		
Borrowings *	10,106	(5,875)	-	-	-	-	38	4,269
Lease liabilities (Note 13)	565	(367)	233	(10)	378	(30)	-	769
	10,671	(6,242)	233	(10)	378	(30)	38	5,038

Group	As at 31 December 2018 \$'000	Application of SFRS(I) 16 \$'000	As at 1 January 2019 \$'000	Financing cash flows ⁽ⁱ⁾ \$'000	Non-cash changes		As at 31 December 2019 \$'000
					New leases \$'000	Currency translation difference \$'000	
Borrowings *	7,446	-	7,446	2,713	-	(53)	10,106
Lease liabilities (Note 13)	117	502	619	(319)	268	(3)	565
	7,563	502	8,065	2,394	268	(56)	10,671

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12. BORROWINGS (Continued)

Reconciliation of liabilities arising from financing activities (Continued)

- (i) The cash flows show the net amount of proceeds from borrowings and repayments of borrowings presented in the consolidated statement of cash flows.
- (ii) This pertains to Covid-19 related rent concessions received from lessors of approximate \$30,000 (Note 18) to which the Group applied the practical expedient as disclosed in Note 2.
- * Amount excludes bank overdraft as it is part of cash and cash equivalents (Note 10).

13. LEASE LIABILITIES

	Group	
	2020 \$’000	2019 \$’000
Current liabilities	315	323
Non-current liabilities	454	242
	769	565

The total cash outflows for the year for all lease contracts amounted to \$572,000 (2019: \$582,000), which includes leases expenses not included in lease liabilities, as disclosed in Note 21.

14. DERIVATIVE FINANCIAL INSTRUMENT

	Group	
	Contract notional amount \$’000	Fair value liability \$’000
2020		
<i>Non-hedging instruments</i>		
Currency forwards	-	-
	-	-
2019		
<i>Non-hedging instruments</i>		
Currency forwards	385	3
	385	3

Derivatives financial instruments comprise the United States dollars / Singapore dollars currency used to manage the exposure from highly probable forecast transactions expected to occur at various dates within 6 months from the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
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15. SHARE CAPITAL

	Group and Company			
	2020		2019	
	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.

Share option

On 6 November 2014, the shareholders of the Company have approved the proposed Darco Performance Share Plan ("Share Plan") as part of a remuneration and compensation plan for attracting as well as retaining executive personnel and Directors.

Directors of the Company and its subsidiaries (including Non-Executive Directors) and Directors and employees of an associated company where the Company has control over the associated company are eligible in the Share Plan. The number of shares available under the said Share Plan will be subject to the maximum limit of 15% of the Company's total issued shares.

As at the date of this report, no shares have been granted under the Share Plan.

16(a). OTHER RESERVES

	Capital reserve **	Foreign currency translation reserve **	Statutory reserve *	Total
	\$'000	\$'000	\$'000	\$'000
Group				
2020				
At beginning of the financial year	840	(4,719)	484	(3,395)
Net exchange differences on translation of financial statements of foreign subsidiaries	-	101	-	101
Allocation to statutory reserve	-	-	124	124
At end of the financial year	840	(4,618)	608	(3,170)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
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16(a). OTHER RESERVES (Continued)

Group	Capital reserve ** \$’000	Foreign currency translation reserve ** \$’000	Statutory reserve * \$’000	Total \$’000
2019				
At beginning of the financial year	603	(4,348)	484	(3,261)
Disposal of shares from non-controlling interests without a change in control (Note 6(e))	237	-	-	237
Net exchange differences on translation of financial statements of foreign subsidiaries	-	(371)	-	(371)
At end of the financial year	840	(4,719)	484	(3,395)

* In accordance with the Foreign Enterprise Law of The People’s Republic of China (“PRC”), the subsidiary, being part of a foreign-owned enterprise is required to make contributions to a statutory reserve fund. At least 10 per cent of the statutory after-tax profits as determined in accordance with the applicable PRC accounting standards and regulations is required to be allocated to the statutory reserve fund. If the cumulative total of the statutory reserve fund reaches 50% of the subsidiary’s registered capital, the enterprise will not be required to make any additional contribution.

The statutory reserve fund may be used to offset accumulated losses or increase the registered capital of the subsidiary, subject to approval from the relevant PRC authorities and is not available for dividend distribution to the shareholders. The PRC enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

** No dividend may be paid, and no other distribution (whether in cash or otherwise) of the Company’s assets (including any distribution of assets to members on a winding up) may be made in respect of this reserve.

16(b). ACCUMULATED LOSSES

	Company	
	2020 \$’000	2019 \$’000
At beginning of the financial year	(41,959)	(39,469)
Loss for the financial year	(2,605)	(2,490)
At end of the financial year	(44,564)	(41,959)

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
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17. REVENUE

(a) 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			
	Contract revenue \$'000	Rendering of services \$'000	Sale of goods \$'000	Total \$'000
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
2019				
Geographical markets				
PRC	29,997	-	-	29,997
Malaysia	9,123	7,154	12,048	28,325
Singapore	14,246	322	482	15,050
Vietnam	-	128	225	353
Others	334	742	-	1,076
	53,700	8,346	12,755	74,801
Timing of revenue recognition				
At a point of time	-	5,247	12,755	18,002
Over time	53,700	3,099	-	56,799
	53,700	8,346	12,755	74,801

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
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17. REVENUE (Continued)

(b) Contract balances

Contract with customers give rise to the following balances as at the reporting date:

	Group	
	2020	2019
	\$’000	\$’000
Trade receivables (Note 9)	19,025	26,340
Contract assets (Note 9)	31,407	22,210
Contract liabilities (Note 11)	(14,359)	(27,378)

The timing of revenue recognition, billings and cash collections results in billed accounts receivable (included in trade receivables), unbilled receivables (contract assets) and contract liabilities.

Contract assets relate to the Group’s right to consideration for work completed but yet to be billed at reporting date on contract revenue, which will be transferred to trade receivables when the rights become unconditional upon invoicing. Invoicing is in accordance with milestones payments set out in the contract, normally first 10% to 20% (2019: 10% to 20%) of contract sum is payable by customers within 14 to 30 days (2019: 14 to 30 days) of signing of contracts and furnishing performance bond if required. Normally the last payment is billable upon final acceptance, or within 12 months from final acceptance. The payments terms for contract revenue in Singapore is normally based on payment claims certified on a monthly basis.

Contract liabilities relating to contract revenue represents the excess of milestone payments over the revenue recognised to date and advances received from customers.

These assets and liabilities are reported as contract assets or liabilities on a contract by contract basis at the end of each reporting period.

Significant changes in the contract assets and liabilities balances during the year are:

	Contract assets	
	2020	2019
	\$’000	\$’000
Amount included in contract asset balances at beginning of the year reclassified to trade receivables	18,162	28,820

	Contract liabilities	
	2020	2019
	\$’000	\$’000
Revenue recognised in current year that was included in the contract liabilities balances at beginning of the year	18,711	11,308

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17. REVENUE (Continued)

(c) Performance obligations

As at reporting date, the transaction price allocated to remaining performance obligations in contracts that are unsatisfied which is expected to be recognised as revenue for the future periods are as follows:

	Group		
	Within 1 year \$’000	Within 2 to 5 years \$’000	Total \$’000
Revenue expected to be recognised on unsatisfied performance obligations of this contract as of 31 December 2020	37,962	23,307	61,269
Revenue expected to be recognised on unsatisfied performance obligations of this contract as of 31 December 2019	57,255	14,429	71,684

18. OTHER INCOME

	Group	
	2020 \$’000	2019 \$’000
Gain on disposal of property, plant and equipment	19	8
Gain on foreign exchange, net	215	8
Government grants:		
- Job support scheme ⁽ⁱ⁾	363	-
- Other Covid-19 related support	445	-
- Others	620	248
Interest income	131	151
Reversal of payables	35	-
Miscellaneous income	33	36
Rental concessions ⁽ⁱⁱ⁾	30	-
	1,891	451

⁽ⁱ⁾ Job support scheme (“JSS”) pertains to a support scheme introduced in Singapore Budget 2020 for retention of local employees which represents cash grants for gross monthly wages of eligible employees.

⁽ⁱⁱ⁾ Rental concessions of \$30,000 pertains to rental rebate granted by lessor from property tax rebate by Singapore government

NOTES TO THE FINANCIAL STATEMENTS

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19. FINANCE COSTS

	Group	
	2020 \$’000	2019 \$’000
Interest expenses on:		
- amount owing to a related party (Note 24)	12	15
- amount due to directors of the Company (Note 24)	9	219
- borrowings	181	256
- lease liabilities	33	25
- trust receipts	19	24
- other payables	-	11
	254	550

20. PERSONNEL EXPENSES

	Group	
	2020 \$’000	2019 \$’000
Directors of the Company:		
- Directors’ fees	135	113
- Directors’ remuneration and related costs	195	280
- Defined contributions plan expenses	15	28
Directors of the subsidiaries:		
- Directors’ fees	178	179
- Directors’ remuneration and related costs	934	618
- Defined contributions plan expenses	61	41
Other key management personnel (non-directors):		
- Salaries and related costs	387	362
- Defined contributions plan expenses	48	35
Total key management personnel remuneration	1,953	1,656
Other personnel:		
- Salaries and related costs	8,416	9,117
- Defined contributions plan expenses	667	656
	9,083	9,773
	11,036	11,429
Total personnel expenses comprise:		
- Salaries and related costs	10,245	10,669
- Defined contributions plan expenses	791	760
	11,036	11,429

NOTES TO THE FINANCIAL STATEMENTS

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20. PERSONNEL EXPENSES (Continued)

Total key management personnel remuneration included as above include:

	Group	
	2020 \$'000	2019 \$'000
Short-term employee benefits	1,829	1,552
Defined contributions plan expenses	124	104
	1,953	1,656

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company and respective subsidiaries, including all directors of the Company and respective subsidiaries.

21. PROFIT / (LOSS) BEFORE INCOME TAX

This is determined after charging / (crediting) the following:

	Group	
	2020 \$'000	2019 \$'000
Amortisation of intangible assets (Note 5)	153	1,669
Auditors' remuneration paid / payable to:		
- auditor of the Company	166	168
- other auditors	164	133
Direct material costs included in cost of sales	40,222	36,132
Sub-contractor costs	7,082	3,890
Depreciation of property, plant and equipment (Note 3)	654	650
Depreciation of right-of-use assets (Note 4)	417	320
Fair value (gain) / loss on derivatives	(3)	3
Inventories written off	-	78
Legal and other professional fees	1,064	591
Leases expenses not included in lease liabilities – short term leases	172	237
Personnel expenses (Note 20)	11,036	11,429
Property, plant and equipment written off	-	6
Provision for slow moving stock	36	-
Loss on disposal and liquidation of subsidiaries (Note 6(b)(ii), 6(c))	88	-
Impairment loss on intangible assets (Note 5)	-	2,920
Research and development fees	1,608	1,392

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

22. INCOME TAX EXPENSE / (CREDIT)

Major components of income tax expense / (credit) for the financial year ended 31 December were:

	Group	
	2020 \$’000	2019 \$’000
Current tax		
- Current year	560	322
- Under provision in the previous financial years	22	88
	582	410
Deferred tax (Note 7)		
- Current year	(21)	(871)
- (Over) / Under provision in the previous financial years	(25)	44
	(46)	(827)
Income tax expense / (credit)	536	(417)

The reconciliation of income tax expense / (credit) and the product of accounting profit / (loss) multiplied by the applicable rate is as follows:

	Group	
	2020 \$’000	2019 \$’000
Accounting profit / (loss)	1,821	(11,898)
Tax at the applicable tax rate of 17% (2019: 17%)	310	(2,023)
Tax effects of:		
- different tax rates in other countries	106	(20)
- tax incentives	(210)	(203)
- expenses not deductible for tax purposes	263	260
- income not subject to tax	(67)	(120)
- deferred tax asset not recognised	266	1,611
- utilisation of previously unrecognised tax losses	(129)	(54)
- under provision of current tax in the previous financial years	22	88
- (over) / under provision of deferred tax in the previous financial years	(25)	44
Income tax expense / (credit)	536	(417)

The Company and Singapore subsidiaries

The Company and Singapore subsidiaries are subject to an applicable tax rate of 17% (2019: 17%). The Company and certain subsidiaries are in a tax loss position for both the financial years ended 31 December 2020 and 2019 and hence they are not subject to tax in the respective years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

(Amounts in thousands of Singapore dollars (“\$’000”))

22. INCOME TAX EXPENSE / (CREDIT) (Continued)

Wuhan Kaidi Water Services Co., Ltd.

In accordance with the Income Tax Law of The People’s Republic of China (“PRC”) for New and High Technology Enterprise and various documents issued by the Tax Bureau of the PRC, the subsidiary, being awarded the “High Technology Enterprise” status, enjoys a concessionary tax rate of 15%, from year 2017 to 2020 as compared to the statutory tax rate for PRC companies of 25%.

Malaysia subsidiaries

Malaysia subsidiaries are subject to an applicable tax rate of 24% (2019: 24%). Certain subsidiaries are in a tax loss position for both the financial years ended 31 December 2020 and 2019 and hence they are not subject to tax in the respective years.

Taiwan subsidiary

Taiwan subsidiary are subject to an applicable tax rate of 20% (2019: 20%).

Shanghai Darco Engineering Co., Ltd. (PRC)

This subsidiary is subject to an applicable tax rate of 25% (2019: 25%). It is in a tax loss position for both the financial years ended 31 December 2020 and 2019 and hence it is not subject to tax.

Darco Environmental (Philippines) Inc.

This subsidiary is subject to an applicable tax rate of 30% (2019: 30%). It is in a tax loss position for the financial years ended 31 December 2020 and 2019 and hence it is not subject to tax.

Indonesia subsidiaries

Indonesia subsidiaries are subject to an applicable tax rate of 22% (2019: 25%). The subsidiaries are in a tax loss position for the financial years ended 31 December 2020 and 2019 and hence they are not subject to tax.

23. EARNINGS / (LOSS) PER SHARE

Basic earnings / (loss) per share is calculated by dividing the net profit / (loss) attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year. The calculation of profit / (loss) per share is based on the following:

	Group	
	2020	2019
Net profit / (loss) attributable to equity holders of the Company (\$’000)	1,176	(8,829)
Weighted average number of ordinary shares outstanding for basic earnings per share	93,831,492	93,831,492
Basic and diluted earnings / (loss) per share (cents)	1.25	(9.41)

Diluted earnings / (loss) per share is the same as the basic earnings / (loss) per share as there were no share options, warrants or other compound financial instruments with dilutive effect were granted during the financial year or outstanding at the end of the financial year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
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24. RELATED PARTY TRANSACTIONS

Some of the arrangements with related parties (as defined in Note 2) and the effects of these bases determined between the parties are reflected elsewhere in this report. Details of transactions between the Company and other related companies are disclosed in this note.

	Group		Company	
	2020 \$’000	2019 \$’000	2020 \$’000	2019 \$’000
Interest paid to a related party ⁽ⁱ⁾	12	15	-	-
Interest paid to directors of the Company				
- Mr. Wang Yaoyu ⁽ⁱ⁾	9	19	-	-
- Mr. Wang Zhi ⁽ⁱⁱ⁾	-	200	-	200

⁽ⁱ⁾ Wuhan Liankai Investment Co., Ltd. (“WHLK”) is considered a related party to the Group as it owns 14.27% of the Company’s shares as at 31 December 2019. The director / controlling shareholder of WHLK is Mr. Wang Yaoyu, who is also a director of the Company. WHLK remains as the non-controlling interest of WHKD, which is a 72% (2019: 72%) owned subsidiary acquired by the Group in financial year 2016 from vendors including WHLK.

Included in borrowings of the Group (Note 12) as at 31 December 2019 were amounts owing by WHKD to WHLK and amounts due to a director of the Company. In addition, WHLK also provides guarantees, at no charges, for the bank facilities of WHKD.

⁽ⁱⁱ⁾ Included in borrowings (Note 12) as at 31 December 2020 and 2019 was an amount owing to Mr. Wang Zhi, who is a director of the Company.

25. CONTINGENCIES AND COMMITMENTS

(i) Contingent liabilities

The Company has provided the following guarantees as at 31 December:

	2020 \$’000	2019 \$’000
Corporate guarantees provided to banks and financial institutions for credit facilities granted to subsidiaries (Note 28(ii)) – amount utilised	4,776	5,258

The Company has assessed that those subsidiaries have adequate financial capacity to meet the contractual cash flows obligation by the repayment due dates and hence, does not expect significant credit losses arising from these guarantees. As a result, the financial effects of SFRS(I) 9 relating to financial guarantee contracts issued by the Company are not material to the financial statements of the Company and therefore are not recognised as a liability as at 31 December 2020 and 2019.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
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25. CONTINGENCIES AND COMMITMENTS (Continued)

(ii) Capital commitments

Capital expenditure contracted for as at 31 December 2020 and 2019 but not recognised in the financial statements is as follows:

	Group	
	2020	2019
	\$’000	\$’000
In respect of property, plant and equipment:		
- construction of freehold building	1,185	1,186

26. INTERESTS IN A JOINT OPERATION

As at 31 December 2019, the Group has a 33.33% ownership interest in a joint operation, Darco Q2 Fitama Consortium, with Q2 A/S and PT. Fitama Putri Mandiri for the execution and completion of work and remedy defects therein in full compliance with the provision of the works contract. The work is related to landfill gas recovery and conversion at Jari Barang Landfill, Semarang, Central Java, Indonesia. The work was completed and the final profit been distributed during the financial year.

The Group’s share of the revenue contribution and net profit from the joint operation amounting to \$267,000 and \$267,000 (2019: \$226,000 and \$43,000) respectively. As at 31 December 2020, included in the consolidated statement of financial position is trade and other receivables and cash and bank balances of the joint operation totalling to Nil (2019: \$498,000).

27. SEGMENT 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 design, fabricate, assemble, install 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

27. SEGMENT INFORMATION (Continued)

Business segments

The information for the reportable segments for the financial years ended 31 December 2020 and 2019 is as follows:

2020	EE				Total
	Systems	WM Services	Trading	Eliminations	
	\$’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)
Finance costs	(170)	(32)	(49)	-	(251)
Interest income	87	13	20	-	120
Gain on disposal of property, plant and equipment	1	1	17	-	19
Legal and other professional fees	(101)	(86)	(24)	-	(211)
Assets					
Segment assets	70,752	3,138	6,155	-	80,045
Liabilities					
Segment liabilities	42,292	1,394	1,499	-	45,185

NOTES TO THE FINANCIAL STATEMENTS

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(Amounts in thousands of Singapore dollars (" \$'000"))

27. SEGMENT INFORMATION (Continued)

Business segments (Continued)

2019	EE	WM Services	Trading	Eliminations	Total
	Systems				
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
Sales to external customers	53,700	8,346	12,755	-	74,801
Inter-segment sales	-	-	608	(608)	-
Total	53,700	8,346	13,363	(608)	74,801
Segment profit	5,179	2,148	2,672	-	9,999
Other information:					
Additions to property, plant and equipment	(7)	(9)	(55)	-	(71)
Impairment loss on financial assets, net	(2,734)	(731)	(351)	-	(3,816)
Impairment loss on intangible assets	(2,920)	-	-	-	(2,920)
Amortisation of intangible assets	(1,669)	-	-	-	(1,669)
Depreciation of property, plant and equipment	(375)	(49)	(60)	-	(484)
Depreciation of right-of-use assets	(7)	-	(30)	-	(37)
Finance costs	(249)	(50)	(48)	-	(347)
Interest income	48	12	18	-	78
(Loss) / Gain on disposal of property, plant and equipment	(1)	9	-	-	8
Legal and other professional fees	(72)	(7)	(34)	-	(113)
Assets					
Segment assets	78,254	5,213	8,639	-	92,106
Liabilities					
Segment liabilities	52,063	1,436	1,377	-	54,876

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
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27. SEGMENT INFORMATION (Continued)

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:

	2020 \$’000	2019 \$’000
Segment profit from the reportable segments	13,614	9,999
Other income	1,891	451
Distribution expenses	(1,118)	(1,733)
Administrative expenses	(12,506)	(16,294)
Reversal of impairment loss / (Impairment loss) on financial assets	194	(3,771)
Finance costs	(254)	(550)
	<hr/>	<hr/>
Profit / (Loss) before income tax	1,821	(11,898)
	<hr/>	<hr/>

(ii) Other material information

	2020 \$’000	2019 \$’000
<u>Additions to property, plant and equipment</u>		
Segment total	228	71
Unallocated:		
- Relates to general and corporate assets	400	3,392
	<hr/>	<hr/>
	628	3,463
	<hr/>	<hr/>
<u>Depreciation of property, plant and equipment</u>		
Segment total	(529)	(484)
Unallocated:		
- Relates to general and corporate assets	(125)	(166)
	<hr/>	<hr/>
	(654)	(650)
	<hr/>	<hr/>
<u>Depreciation of right-of-use assets</u>		
Segment total	(157)	(37)
Unallocated:		
- Relates to general and corporate assets	(260)	(283)
	<hr/>	<hr/>
	(417)	(320)
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (" \$'000"))

27. SEGMENT INFORMATION (Continued)

Reconciliation (Continued)

(ii) Other material information (Continued)

	2020 \$'000	2019 \$'000
<u>Reversal of impairment loss / (Impairment loss) on financial assets</u>		
Segment total	380	(3,816)
Unallocated:		
- Relates to general and corporate assets	(186)	45
	<u>194</u>	<u>(3,771)</u>
<u>Legal and other professional fees</u>		
Segment total	(211)	(113)
Unallocated:		
- Arising from general and corporate activities	(853)	(478)
	<u>(1,064)</u>	<u>(591)</u>
<u>Interest income</u>		
Segment total	120	78
Unallocated:		
- Arising from general and corporate used bank balances	11	73
	<u>131</u>	<u>151</u>
<u>Finance costs</u>		
Segment total	(251)	(347)
Unallocated:		
- Relating to borrowings for general working capital purpose and lease liabilities for general and corporate assets	(3)	(203)
	<u>(254)</u>	<u>(550)</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

27. SEGMENT INFORMATION (Continued)

Reconciliation (Continued)

(iii) Segment assets

Segment assets are reconciled to total assets as follows:

	2020 \$’000	2019 \$’000
Segment assets for reportable segments	80,045	92,106
Unallocated assets:		
- Property, plant and equipment	3,290	4,740
- Right-of-use assets	375	272
- Other receivables	4,883	3,544
- Income tax recoverable	-	14
- Cash and bank balances	3,312	8,171
	<u>91,905</u>	<u>108,847</u>

(iv) Segment liabilities

Segment liabilities are reconciled to total liabilities as follows:

	2020 \$’000	2019 \$’000
Segment liabilities for reportable segments	45,185	54,876
Unallocated liabilities:		
- Other payables	477	4,145
- Lease liabilities	41	281
- Borrowings	1,324	6,400
	<u>47,027</u>	<u>65,702</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

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27. SEGMENT INFORMATION (Continued)

Geographical segments

The Group’s three operating segments operate in four main geographical areas:

- (i) Malaysia – the operations in this area are principally the designing, installing, setting up and maintaining of industrial waste treatment plant ultra-pure system (“EE Systems”), testing of waste water and processed water, rendering of other related waste treatment plant services (“WM Services”) and trading in industrial water treatment, spare parts and chemicals (“Trading”).
- (ii) PRC – the operations in this area are principally the supply of potable water, design, fabrication, installation and commissioning of environmental engineering system and providing consultancy services in relation to such business as well as designing, installing, setting up and maintaining of industrial waste treatment plant ultra-pure system (“EE Systems”).
- (iii) Singapore – the Company is headquartered and has operations in Singapore. The operations in this area are principally investment holding, design and fabrication of water treatment systems (“EE Systems”), and providing consultancy services in relation to such business (“WM Services”) and trading in industrial water treatment spare parts and chemicals (“Trading”).
- (iv) Vietnam – the operations in this area are principally the designing, installing and commissioning of treatment systems for water purification (“EE Systems”) as well as treatment of waste water and other waste discharge for industrial use (“WM Services”) and supplying chemicals and components used in manufacturing and maintenance water treatment systems (“Trading”).
- (v) Other countries – the operations in Taiwan are principally the design, fabrication and installation of water and waste water pollution control engineering, air pollution control engineering (“EE Systems”), solid waste disposal treatment and incineration, noise and vibration prevention engineering, soil pollution control engineering and environmental monitoring system (“WM Services”). The operations in Philippines include the design, installation and commissioning of treatment systems for water purification, treatment of wastewater and other waste discharge for industrial use (“EE Systems”); and operations in Indonesia through acquisition of PEI group as disclosed in Note 6(b)(i) is principally the provision of regional solid waste management and treatment infrastructure, which has been disposed during the year (Note 6(b)(ii)).

Revenue and non-current assets information based on the geographical location of contracting customers (regardless of projects location for contract revenue) / assets are as follows:

	Revenue		Non-current assets	
	2020 \$’000	2019 \$’000	2020 \$’000	2019 \$’000
PRC	40,728	29,997	3,088	2,461
Malaysia	26,104	28,325	3,908	4,025
Singapore	10,267	15,050	524	1,259
Vietnam	214	353	262	472
Other countries	769	1,076	108	3,721
	78,082	74,801	7,890	11,938

Non-current assets presented above include property, plant and equipment, right-of-use assets and intangible assets based on the location of the assets.

NOTES TO THE FINANCIAL STATEMENTS

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(Amounts in thousands of Singapore dollars (“\$’000”))

27. SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

Major customers

Revenue of approximately \$9,701,000 (2019: \$9,081,000), or 12% (2019:12%) of the Group’s revenue in 2020, is derived from a listed state-owned power-producers group of companies based in the PRC, which is attributable to the “EE Systems” segment.

None of the customers in the “WM Services” and “Trading” segment contributed to more than 10% of the Group’s total revenue.

28. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group’s activities expose it to market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group’s overall risk management strategy seeks to minimise adverse effects from the unpredictability of financial markets on the Group’s financial performance.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management of the Group. The management then establishes the detailed policies such as authority levels, oversight responsibilities, risk identification and measurement, exposure limits and hedging strategies, in accordance with the objectives and underlying principles approved by the Board of Directors.

(i) Market risk

(a) Foreign exchange risk

The Group operates in Asia with dominant operations in Singapore, The People’s Republic of China, Malaysia and Philippines. Entities in the Group regularly transact in currencies other than their respective functional currencies (“foreign currencies”).

Foreign exchange risk arises for transactions that are mainly denominated in foreign currencies such as the United States dollars (“USD”), Malaysia ringgit (“MYR”), New Taiwan dollars (“NTD”), Chinese Renminbi (“RMB”) and others.

In addition, the Group is exposed to currency translation risk on the net assets in foreign operations. Currency exposure to the net assets of the Group’s foreign operations in The People’s Republic of China and Malaysia is managed primarily through borrowings denominated in the relevant foreign currencies.

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28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

The Group's currency exposure based on the information provided to the key management is as follows:

Group 2020	SGD \$'000	USD \$'000	MYR \$'000	NTD \$'000	RMB \$'000	Others * \$'000	Total \$'000
Financial assets							
Trade and other receivables	6,579	2,751	9,461	132	39,205	996	59,124
Cash and bank balances	6,652	3,168	3,604	53	5,120	409	19,006
Intragroup receivables	23,457	2,982	2,775	2,939	1,636	829	34,618
	<u>36,688</u>	<u>8,901</u>	<u>15,840</u>	<u>3,124</u>	<u>45,961</u>	<u>2,234</u>	<u>112,748</u>
Financial liabilities							
Trade and other payables	1,796	168	3,376	408	19,065	63	24,876
Borrowings	1,600	1,325	3,176	-	297	-	6,398
Lease liabilities	413	-	356	-	-	-	769
Intragroup payables	23,457	2,982	2,775	2,939	1,636	829	34,618
	<u>27,266</u>	<u>4,475</u>	<u>9,683</u>	<u>3,347</u>	<u>20,998</u>	<u>892</u>	<u>66,661</u>
Net financial assets / (liabilities)	9,422	4,426	6,157	(223)	24,963	1,342	46,087
Less: Net financial (assets) / liabilities denominated in the respective entities' functional currencies	(13,920)	-	(7,045)	1,732	(23,574)	(1,331)	(44,138)
Foreign currency exposure	<u>(4,498)</u>	<u>4,426</u>	<u>(888)</u>	<u>1,509</u>	<u>1,389</u>	<u>11</u>	<u>1,949</u>

* Others are denominated in Vietnamese Dong, Pakistani Rupee and Australian dollar.

NOTES TO THE FINANCIAL STATEMENTS

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28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Group 2019	SGD \$’000	USD \$’000	MYR \$’000	NTD \$’000	RMB \$’000	Others * \$’000	Total \$’000
Financial assets							
Trade and other receivables	6,089	2,431	8,429	115	36,128	1,623	54,815
Cash and bank balances	13,315	2,360	3,418	92	7,725	510	27,420
Intragroup receivables	23,416	1,737	2,478	1,347	2,064	572	31,614
	<u>42,820</u>	<u>6,528</u>	<u>14,325</u>	<u>1,554</u>	<u>45,917</u>	<u>2,705</u>	<u>113,849</u>
Financial liabilities							
Trade and other payables	3,101	583	3,395	378	14,859	2,725	25,041
Borrowings	4,517	2,215	3,741	-	1,641	136	12,250
Lease liabilities	258	-	307	-	-	-	565
Intragroup payables	23,416	1,737	2,478	1,347	2,064	572	31,614
	<u>31,292</u>	<u>4,535</u>	<u>9,921</u>	<u>1,725</u>	<u>18,564</u>	<u>3,433</u>	<u>69,470</u>
Net financial assets / (liabilities)	11,528	1,993	4,404	(171)	27,353	(728)	44,379
Add: Currency forward contracts	-	385	-	-	-	-	385
Less: Net financial (assets) / liabilities denominated in the respective entities’ functional currencies	(16,451)	-	(4,821)	1,518	(25,581)	1,558	(43,777)
Foreign currency exposure	<u>(4,923)</u>	<u>2,378</u>	<u>(417)</u>	<u>1,347</u>	<u>1,772</u>	<u>830</u>	<u>987</u>

* Others are denominated in Euro, Pakistani Rupee, Indonesian rupiah, Vietnamese Dong, Philippines Peso and Danish Krone.

NOTES TO THE FINANCIAL STATEMENTS

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(Amounts in thousands of Singapore dollars (" \$'000"))

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Company 2020	SGD \$'000	USD \$'000	NTD \$'000	MYR \$'000	Total \$'000
Financial assets					
Trade and other receivables	10,434	4,021	1,414	-	15,869
Cash and bank balances	123	1,842	-	-	1,965
	<u>10,557</u>	<u>5,863</u>	<u>1,414</u>	<u>-</u>	<u>17,834</u>
Financial liabilities					
Trade and other payables	1,280	222	8	10	1,520
Borrowings	-	1,325	-	-	1,325
	<u>1,280</u>	<u>1,547</u>	<u>8</u>	<u>10</u>	<u>2,845</u>
Net financial assets / (liabilities)	9,277	4,316	1,406	(10)	14,989
Less: Net financial assets denominated in the Company's functional currency	(9,277)	-	-	-	(9,277)
Foreign currency exposure	-	4,316	1,406	(10)	5,712
2019					
	SGD \$'000	USD \$'000	NTD \$'000	RMB \$'000	Total \$'000
Financial assets					
Trade and other receivables	11,608	2,505	1,347	-	15,460
Cash and bank balances	6,120	221	-	-	6,341
	<u>17,728</u>	<u>2,726</u>	<u>1,347</u>	<u>-</u>	<u>21,801</u>
Financial liabilities					
Trade and other payables	1,165	226	-	1	1,392
Borrowings	4,000	1,349	-	-	5,349
	<u>5,165</u>	<u>1,575</u>	<u>-</u>	<u>1</u>	<u>6,741</u>
Net financial assets / (liabilities)	12,563	1,151	1,347	(1)	15,060
Less: Net financial assets denominated in the Company's functional currency	(12,563)	-	-	-	(12,563)
Foreign currency exposure	-	1,151	1,347	(1)	2,497

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28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Foreign exchange risk sensitivity

The following table details the sensitivity to a 5% (2019: 5%) increase and decrease in the functional currencies against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% (2019: 5%) change in foreign currency rates.

If the foreign currencies strengthen by 5% (2019: 5%) against the relevant functional currencies, with all other variables held constant, the Group’s and the Company’s profit / (loss) for the financial year will increase / (decrease) by:

	SGD \$’000	USD \$’000	MYR \$’000	NTD \$’000	RMB \$’000	Others* \$’000
2020						
Group						
Profit for the financial year	(187)	184	(37)	63	58	*
Company						
Loss for the financial year	-	(179)	**	(58)	-	-
2019						
Group						
Loss for the financial year	204	(99)	17	(56)	(74)	(34)
Company						
Loss for the financial year	-	(48)	-	(56)	**	-

* Others are denominated in Vietnamese Dong, Pakistani Rupee and Australian dollar (2019: Euro, Pakistani Rupee, Indonesian rupiah, Vietnamese Dong, Philippines Peso and Danish Krone).

** Amount less than \$1,000.

A 5% (2019: 5%) weakening of foreign currencies against the respective functional currencies at the reporting date would have had the equal opposite effect on the above currencies to the amount shown above, on the basis that all other variables held constant.

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28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(b) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's exposure to cash flow interest rate risks arises mainly from non-current variable-rate borrowings.

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments, as reported to the Management, is as follows:

	Group		Company	
	Carrying amount		Carrying amount	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Fixed rate instruments				
Financial assets				
- Other receivables (Note 9)	*	*	-	-
- Fixed deposits (Note 10)	2,428	5,897	-	3,397
Financial liabilities				
- Borrowings (Note 12)	(2,925)	(8,439)	(1,325)	(5,349)
- Lease liabilities (Note 13)	(769)	(565)	-	-
	(1,266)	(3,107)	(1,325)	(1,952)
Variable rate instruments				
Financial liabilities				
- Borrowings (Note 12)	(3,473)	(3,811)	-	-

* Amount less than \$1,000.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, in respect of the fixed rate instruments, a change in interest rates at the reporting date would not affect profit or loss.

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28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(b) Interest rate risk (Continued)

Sensitivity analysis for variable rate instruments

If the interest rates had been 50 basis point higher and all other variables held constant, the Group’s and the Company’s profit / (loss) for the financial year will (decrease) / increase by:

	Group		Company	
	2020 \$’000	2019 \$’000	2020 \$’000	2019 \$’000
Profit / (Loss) for the financial year	(14)	16	-	-

(ii) Liquidity risk

Liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions at a short notice. At the end of the reporting period, assets held by the Group and the Company for managing liquidity risk included cash and bank balances as disclosed in Note 10.

Management monitors rolling forecasts of the Group’s and the Company’s liquidity reserve comprises borrowings (Note 12) and cash and bank balances (Note 10) on the basis of expected cash flow. This is generally carried out at local level in the operating companies of the Group in accordance with practice and limits set by the Group. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the Group’s liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these; monitoring liquidity ratios and maintaining debt financing plans.

The table below analyses the Group’s and the Company’s non-derivative financial liabilities into relevant maturity groupings based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group and the Company can be required to pay and includes both interest and principal cash flows.

NOTES TO THE FINANCIAL STATEMENTS

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(Amounts in thousands of Singapore dollars (" \$'000"))

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(ii) Liquidity risk (Continued)

Group	Weighted average effective interest rate %	On demand or not later than 1 year \$'000	Later than 1 year and not later than 5 years \$'000	Later than 5 years \$'000	Total \$'000
2020					
Trade and other payables		24,876	-	-	24,876
Borrowings	2.50% - 6.89%	5,515	436	780	6,731
Lease liabilities	3.28% - 5.25%	343	476	-	819
		<u>30,734</u>	<u>912</u>	<u>780</u>	<u>32,426</u>
2019					
Trade and other payables		25,041	-	-	25,041
Borrowings	0.05% - 8.14%	10,988	873	1,247	13,108
Lease liabilities	3.28% - 5.25%	341	253	-	594
Derivative financial instruments		3	-	-	3
		<u>36,373</u>	<u>1,126</u>	<u>1,247</u>	<u>38,746</u>
Company					On demand or within 1 year \$'000
2020					
Trade and other payables					1,520
Borrowings					1,325
Financial guarantee contracts (Note 25(i))					4,776
					<u>7,621</u>
2019					
Trade and other payables					1,392
Borrowings					5,349
Financial guarantee contracts (Note 25(i))					5,258
					<u>11,999</u>

Trade and other payables of the Group are non-interest bearing and normally settled on a range of 30 to 90 days terms. Trade and other payables of the Company including balances owing to subsidiaries that are repayable on demand. These are included as liabilities payable on demand or within one year.

For financial guarantees issued to the banks by the Company, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called. Out of this amount, an amount of \$2,559,000 (2019: \$1,050,000) relates to instalments due in 2 - 5 years based on the contractual payment schedule of the loans.

NOTES TO THE FINANCIAL STATEMENTS

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(Amounts in thousands of Singapore dollars (“\$’000”))

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The major classes of financial assets of the Group and of the Company are cash and bank balances and trade and other receivables. Cash and bank balances are placed with reputable financial institutions. Therefore, credit risk arises mainly from the inability of its customers to make payments when due. For trade receivables (including contract assets), the Group adopts the policy of dealing only with customers of appropriate credit history, and obtaining sufficient security where appropriate to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties.

As the Group and the Company do not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented in the statements of financial position, except for guarantees as disclosed in Note 25(i).

Credit risk concentration included in the Group’s trade receivables and contract assets (Note 9) as at 31 December is:

- 3 debtors (2019: 3 debtors) in PRC in environmental engineering business that individually represented 5% to 10% (2019: 7% to 17%) of the Group’s trade receivables and contract assets, as part of “EE Systems” segment; and
- 1 municipal customer (2019: 1 municipal customer) in Singapore in environmental engineering business that individually represented 11% (2019: 11%) of the Group’s trade receivables and contract assets, as part of “EE Systems” segment; and
- top 5 balances in Malaysia that individually represented 1% (2019: 3% - 4%) of the Group’s trade receivables, as part of “EE Systems” and “Trading System” segment.

As at 31 December 2020, cash and bank balances placed with 4 banks (2019: 4 banks) individually represented 11% - 30% (2019: 12% - 19%) of the Group’s cash and bank balances.

Other than disclosed above and in Note 9, there is no other credit risk concentration in financial assets of the Group and Company.

The Group manages credit loss based on Expected Credit Losses (ECL) model.

(a) Trade receivables and contract assets

The Group’s exposure to credit risk from trade receivables are linked to the individual characteristics of each customer, and also influenced by the default risk specific to the industry or country brought about by the general economic condition.

To measure the ECL allowance, trade receivables and contract assets have been grouped together according to the main geographical areas in which the Group operates which has higher influence on credit risks than the reportable segments. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same type of contracts. The Group has therefore concluded that the expected loss rates for the trade receivables are a reasonable approximation of the loss rates for the contract assets.

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28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(a) Trade receivables and contract assets (Continued)

Summarised below is the information about the credit risk exposure on the Group's trade receivables and contract assets grouped by geographical area:

	Contract assets		Trade receivables	
	Gross carrying amount \$'000	ECL \$'000	Gross carrying amount \$'000	ECL \$'000
Group – As at 31 December 2020				
Singapore	4,061	-	2,288	15
PRC	29,112	3,154	9,816	426
Malaysia	1,389	1	7,414	333
Vietnam	-	-	281	-
	34,562	3,155	19,799	774
Group – As at 31 December 2019				
Singapore	3,428	-	2,588	10
PRC	20,979	2,592	16,008	823
Malaysia	401	6	8,944	709
Vietnam	-	-	342	-
	24,808	2,598	27,882	1,542

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
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28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(a) Trade receivables and contract assets (Continued)

Summarised below is the information about the credit risk exposure on the Group’s trade receivables and contract assets grouped by type of counterparties:

	Contract assets		Trade receivables	
	Gross carrying amount \$’000	ECL \$’000	Gross carrying amount \$’000	ECL \$’000
Group – As at 31 December 2020				
Municipal	3,728	-	1,774	-
State-owned enterprise	11,261	1,139	2,555	241
Private corporations	19,573	2,016	15,470	533
	34,562	3,155	19,799	774
Group – As at 31 December 2019				
Municipal	3,098	-	2,021	-
State-owned	5,479	496	7,008	460
Private	16,231	2,102	18,853	1,082
	24,808	2,598	27,882	1,542

Singapore

The Group has applied the simplified approach to measure the lifetime expected credit losses for its trade receivables.

To measure the expected credit losses, trade receivables has been grouped based on credit risk characteristics and days past due.

The expected credit loss rates are based on the payment profile of sales and the corresponding historical credit losses experience. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at 31 December was determined via a provision matrix as follows for both trade receivables and contract assets:

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
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28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(a) Trade receivables and contract assets (Continued)

Singapore (Continued)

Group	Contract assets	Trade receivables							Total
		Current	Current	Days past due			91 – 120 days (credit-impaired)	Individually impaired	
				< 30 days	31 – 60 days	61 – 90 days			
31 December 2020									
Expected credit loss rate (%)	0.46%	7.31%	3.18%	8.01%	11.72%	30.36%	45.46%	81.06%	100.00%
Gross carrying amount (\$'000)	4,061 **	1,921 **	301	64	2				2,288
Expected credit loss (\$'000)	-	9	2	4	*				15
31 December 2019									
Expected credit loss rate (%)	0.00%	0.23%	1.98%	0.64%	2.33%	3.11%	10.02%	26.11%	100.00%
Gross carrying amount (\$'000)	3,428 **	2,343 **	162	77	-	6			2,588
Expected credit loss (\$'000)	-	1	1	2	-	6			10

* Amount less than \$1,000.

** Including an amount owing from a municipal customer of \$5,502,000 (2019: \$5,119,000), with a very low credit risk.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
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28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(a) Trade receivables and contract assets (Continued)

China

Due to the inherent nature of the construction industry in the China, the payment by the customers may be prolonged. The expected loss rates are based on the payment profiles of sales over a period of 5 years before 31 December and the corresponding historical credit losses experience within this period. The historical rates have been adjusted for forward-looking factors for the economic environment. On that basis, the loss allowance as at 31 December was determined via a provision matrix as follow for both trade receivables and contract assets:

Group	Contract assets and trade receivables							Individually impaired	Total
	Days past due								
	Current	< 1 year	1 – 2 years	2 – 3 years	3 – 4 years	> 4 years	Credit-impaired		
31 December 2020									
Expected credit loss rate (%)	0.55%	1.88%	6.27%	10.23%	20.46%	56.74%	100.00%		
Gross carrying amount (\$’000)	27,877	3,775	1,346	735	6	3,390	1,799	38,928	
Expected credit loss (\$’000)	127	69	29	64	1	1,491	1,799	3,580	
31 December 2019									
Expected credit loss rate (%)	1.21%	4.16%	9.90%	11.41%	19.75%	45.39%	100.00%		
Gross carrying amount (\$’000)	21,925	4,765	4,333	876	3,244	111	1,733	36,987	
Expected credit loss (\$’000)	263	199	429	100	641	50	1,733	3,415	

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28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(a) Trade receivables contract assets (Continued)

Malaysia

The expected loss rates are based on the payment profiles of sales over the period of 1 year. The expected loss rates are based on the payment profiles of sales over a period of 5 years before 31 December and the corresponding historical credit losses experience within this period (2019: The management have concluded that a 10% loss rate for customers was expected for trade receivables that are 90 days above credit terms based on past historical credit loss experiences). The historical rates have been adjusted for forward-looking factors for the economic environment. On that basis, the loss allowance as at 31 December was determined via a provision matrix as follow for both trade receivables and contract assets.

Group	Contract assets	Trade receivables						Total
		Current	Days past due			Individually impaired	Total	
			< 30 days	30 – 60 days	61 – 90 days			
31 December 2020								
Expected credit loss rate (%)	0.01% - 0.02%	0.01% - 1.12%	0.01% - 1.12%	0.01% - 1.21%	0.01% - 1.64%	25.00%	100.00%	
Gross carrying amount (\$'000)	1,389	3,199	1,586	1,388	594	426	7,414	
Expected credit loss (\$'000)	1	*	1	1	1	109	333	
31 December 2019								
Expected credit loss rate (%)	0.29% - 3.65%	0.01% - 5.46%	0.01% - 5.46%	0.07% - 5.46%	1.45% - 5.46%	10.00%	100.00%	
Gross carrying amount (\$'000)	401	3,616	1,981	2,163	226	429	8,944	
Expected credit loss (\$'000)	6	47	21	11	36	65	709	

* Amount less than \$1,000.

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28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(a) Trade receivables contract assets (Continued)

Vietnam

The Group computes the expected credit loss taking into account the nature of counterparty and the industry the customers operate in. Management has assessed the appropriateness of the rate based on the payment patterns and historical loss rates.

The management assess that there are no material ECL on trade receivables.

When the receivables are determined to have no reasonable prospect of recovery, the Group write-off the balances while continuing to engage in enforcement activity to recover the balances.

The movement of the life-time ECL on trade receivables and contract assets are as follows:

Group	Contract assets	Trade receivables	Total
	\$’000	\$’000	\$’000
2020			
Balance at 1 January 2020	2,598	1,542	4,140
ECL allowance recognised / (write-back) during the year			
Changes in ECL allowance	562	92	654
Reversal of unutilised amount	(137)	(895)	(1,032)
	425	(803)	(378)
Currency translation differences	132	35	167
Balance at 31 December 2020 (Note 9)	3,155	774	3,929
2019			
Balance at 1 January 2019	417	1,184	1,601
ECL allowance recognised / (write-back) during the year			
Changes in ECL allowance	2,245	879	3,124
Reversal of unutilised amount	-	(69)	(69)
	2,245	810	3,055
Written off	-	(428)	(428)
Currency translation differences	(64)	(24)	(88)
Balance at 31 December 2019 (Note 9)	2,598	1,542	4,140

NOTES TO THE FINANCIAL STATEMENTS

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28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(a) Trade receivables and contract assets (Continued)

Group	Non-credit impaired \$'000	Credit impaired \$'000	Total \$'000
2020			
Balance at 1 January 2020	1,016	3,124	4,140
ECL allowance recognised / (write-back) during the year			
Changes in ECL allowance	10	644	654
Reversal of unutilised amount	(820)	(212)	(1,032)
	(810)	432	(378)
Currency translation differences	38	129	167
Balance at 31 December 2020 (Note 9)	244	3,685	3,929
2019			
Balance at 1 January 2019	814	787	1,601
ECL allowance recognised / (write-back) during the year			
Changes in ECL allowance	294	2,830	3,124
Reversal of unutilised amount	(69)	-	(69)
	225	2,830	3,055
Written off	-	(428)	(428)
Currency translation differences	(23)	(65)	(88)
Balance at 31 December 2019 (Note 9)	1,016	3,124	4,140

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28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(b) Other receivables, including amounts owing by subsidiaries and financial guarantees to subsidiaries

For the purpose of impairment assessment, general 3-stages approach is applied in the ECL assessment of financial assets other than trade receivables and contract assets. The management is of view that determining whether there has been a significant increase in credit risk since initial recognition would require undue cost or effort, and hence life-time ECL is recognised as at each reporting date until derecognition.

Summarised below is the information about the credit risk exposure on the other receivables and refundable deposits:

	Group		Company	
	2020 \$’000	2019 \$’000	2020 \$’000	2019 \$’000
Non-current				
Other receivables – third party	378	-	378	-
Refundable deposits	1,066	-	1,066	-
Current				
Other receivables:				
- Third parties	5,107	2,992	1,339	1
- Subsidiaries (non-trade)	-	-	24,670	24,866
Refundable deposits	3,410	4,227	251	1,349
Staff loans	734	820	1	-
Gross carrying amount	10,695	8,039	27,705	26,216
Less: ECL allowance – credit impaired	(1,818)	(1,774)	(11,651)	(10,756)
Less: ECL allowance – non-credit impaired (Stage 2)	(185)	-	(185)	-
	(2,003)	(1,774)	(11,836)	(10,756)
	8,692	6,265	15,869	15,460

- The Group has assessed that its staff have the financial capacity as well as the ability to repay their loan in the near future and accordingly determined that the amount of the allowance on staff loan was immaterial.

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28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

- (b) Other receivables, including amounts owing by subsidiaries and financial guarantees to subsidiaries (Continued)

The movement of the life-time ECL on other receivables and refundable deposits are as follows:

	Group \$'000	Company \$'000
Balance at 1 January 2020	1,774	10,756
ECL allowance recognised / (write-back) during the year		
- Changes in ECL allowance	211	1,520
- Reversal of unutilised amount	(27)	(440)
	184	1,080
Written off	(37)	-
Currency translation differences	82	-
Balance at 31 December 2020 (Note 9)	2,003	11,836
Balance at 1 January 2019	1,107	9,327
ECL allowance recognised during the year		
- Changes in ECL allowance	717	1,429
- Reversal of unutilised amount	(1)	-
	716	1,429
Currency translation differences	(49)	-
Balance at 31 December 2019 (Note 9)	1,774	10,756

The Group and the Company considers the above ECL to be Stage 3 ECL (credit impaired) considering that:

- Bankruptcy of the former subsidiary included in other receivables of the Group (Note 9(i)).
- Remaining other receivables of the Group which were fully provided had been overdue more than 1 year.
- Weak financial position of subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

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28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

- (b) Other receivables, including amounts owing by subsidiaries and financial guarantees to subsidiaries (Continued)

In measuring the ECL allowance on the remaining carrying amounts:

- The Group and the Company provided ECL on refundable deposit on an aborted acquisition of a Vietnam company to reflect the time value of money and credit enhancement which is considered to be Stage 2 (significant increase in credit risks) in view of the payment extensions as disclosed in Note 9(ii).
- The Group has determined that the amount of the allowance on staff loan are immaterial, in view of the assessment that its staff have the financial capacity as well as the ability to repay their loan in the near future.

(c) Cash and bank balances

Bank deposits are placed with reputable financial institutions with high credit-ratings assigned by international credit-rating agencies. Impairment on cash and bank balances has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and bank balances have low credit risk based on the external credit ratings of the financial institutions. The amount of the allowance on cash and bank balances are immaterial.

(iv) Financial instruments by category

	Group		Company	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Financial assets at amortised cost:				
- Trade receivables	19,025	26,340	-	-
- Other receivables	8,692	6,265	15,869	15,460
- Contract assets	31,407	22,210	-	-
- Cash and bank balances	19,006	27,420	1,965	6,341
	<u>78,130</u>	<u>82,235</u>	<u>17,834</u>	<u>21,801</u>
Financial liabilities at amortised cost	32,043	37,856	2,845	6,741
Financial liabilities at FVPL	-	3	-	-

NOTES TO THE FINANCIAL STATEMENTS

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28. FINANCIAL INSTRUMENTS (Continued)

Capital risk management objectives and policies

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, obtain new borrowings or sell assets to reduce borrowings.

Management monitors capital based on gearing ratio. The Group is also required by the banks to maintain a gearing ratio of not exceeding 2.5 times (2019: 2.5 times).

The gearing ratio is calculated as total debts (borrowings) divided by total tangible net worth. Total tangible net worth is calculated as total equity less non-controlling interests and intangible assets.

	Group	
	2020 \$'000	2019 \$'000
Total debts (Note 12)	6,398	12,250
Total tangible net worth	40,250	36,291
Gearing ratio	0.16 times	0.34 times

The Group is in compliance with all externally imposed capital requirements for the financial years ended 31 December 2020 and 31 December 2019.

29. 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).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

29. FAIR VALUES OF ASSETS AND LIABILITIES (Continued)

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

Fair value hierarchy (Continued)

The following table shows an analysis of financial instruments measured at fair value by the level of fair value hierarchy:

	Group			Total \$’000
	Level 1 \$’000	Level 2 \$’000	Level 3 \$’000	
2020				
Financial liability				
Derivative financial instrument (Note 14)	-	-	-	-
2019				
Financial liability				
Derivative financial instrument (Note 14)	-	3	-	3

Determination of fair value

The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and make assumptions that are based on market conditions existing at each reporting date.

The fair value of the derivative financial instrument is determined by reference to current forward prices for contracts with similar maturity profiles.

There has been no transfer from Level 1 and Level 2 to Level 3 during the financial year ended 31 December 2019. The Group had no financial assets or liabilities carried at fair value in 2020.

The Company had no financial assets or liabilities carried at fair value in 2020 and 2019.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020
(Amounts in thousands of Singapore dollars (“\$’000”))

30. SUBSEQUENT EVENT

On 17 March 2021, the Group made an announcement pertaining to a letter received from a group of shareholders (in aggregate holding approximately 16.1% shareholding of the Company), calling for the Company to commence action against Mr. Wang Zhi, a Director and the Non-Executive Deputy Chairman, and one other person. Further details of the allegations are detailed in the Company’s announcement on the Singapore Stock Exchange website dated 17 March 2021.

At the date of authorisation for issue of the consolidated financial statements of the Group, the Company is in the midst of reviewing and assessing the impact from the above complaint from the shareholders and is currently seeking legal advice.

STATISTICS OF SHAREHOLDINGS

AS AT 22 MARCH 2021

Class of Shares	– Ordinary Share
Number of Issued Shares (excluding treasury shares and subsidiary holdings)	– 93,831,492
Voting Rights	– One vote per share
Number of treasury shares held and percentage	– Nil
Number of Subsidiary Holdings and percentage	– Nil

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 99	279	14.09	12,900	0.01
100 – 1,000	966	48.79	467,425	0.50
1,001 – 10,000	567	28.64	1,990,218	2.12
10,001 – 1,000,000	159	8.03	10,647,328	11.35
1,000,001 AND ABOVE	9	0.45	80,713,621	86.02
TOTAL	1,980	100.00	93,831,492	100.00

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	WANG ZHI	41,792,318	44.54
2	STONE ROBERT ALEXANDER	10,957,000	11.68
3	KGI SECURITIES (SINGAPORE) PTE. LTD	9,562,227	10.19
4	THYE KIM MENG	7,155,485	7.63
5	UOB KAY HIAN PRIVATE LIMITED	4,232,991	4.51
6	CAPITAL BOOM LIMITED	2,500,000	2.66
7	HELEN YANG	1,608,640	1.71
8	HUANG JIAN	1,504,800	1.60
9	HUANG LINGXI	1,400,160	1.49
10	BNP PARIBAS NOMINEES SINGAPORE PTE. LTD.	745,210	0.79
11	FENG JUN	501,200	0.53
12	CGS-CIMB SECURITIES (SINGAPORE) PTE. LTD.	482,095	0.51
13	DBS NOMINEES (PRIVATE) LIMITED	431,564	0.46
14	TAN TJIN GUAN @ JIO TJIN GUAN	410,770	0.44
15	PHILLIP SECURITIES PTE LTD	366,100	0.39
16	ROBERT RONALD	298,150	0.32
17	YEO CHUNG CHEN JOHNNY @ TAN CHUNG CHEN JOHNNY	293,300	0.31
18	MAYBANK KIM ENG SECURITIES PTE.LTD	285,851	0.30
19	OCBC SECURITIES PRIVATE LIMITED	238,490	0.25
20	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	231,570	0.25
	TOTAL	84,997,921	90.56

STATISTICS OF SHAREHOLDINGS

AS AT 22 MARCH 2021

SUBSTANTIAL SHAREHOLDER AS AT 22 MARCH 2021

(As recorded in the Register of Substantial Shareholders)

No.	Name	Direct Interest		Deemed Interests	
		No. of Shares held	%	No. of Shares held	%
1	Wang Zhi	41,792,318	44.54%	–	–
2	Stone Robert Alexander	10,957,000	11.68%	–	–
3	Wah Lee Industrial Corp.	7,649,782	8.15%	–	–
4	Thye Kim Meng	7,155,485	7.63%	–	–

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

As at 22 March 2021, 28.00% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST which requires 10% of the equity securities (excluding preference shares and convertible equity securities) in a class that is listed to be in the hands of the public.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Darco Water Technologies Limited (the "Company") will be convened and held by way of electronic means on 28 April 2021 (Wednesday) at 2.00 p.m., for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Audited Financial Statements and Director's Statement of the Company and the Group for the financial year ended 31 December 2020 together with the Auditors' Report thereon. **[Resolution 1]**
2. To approve the payment of Directors' fees of S\$135,055 for the financial year ended 31 December 2020 (2019: S\$125,401). **[Resolution 2]**
3. To approve the payment of Directors' fees of S\$138,000 for the financial year ended 31 December 2021, payable quarterly in arrears. **[Resolution 3]**
4. To re-elect the following Directors retiring pursuant to Regulation 106 of the Company's Constitution:

- (a) Mr Wang Yaoyu **[Resolution 4(a)]**

Note: Mr. Wang Yaoyu will, upon re-election as a Director of the Company, remain as Executive Chairman of the Company.

- (b) Mr Poh Kok Hong **[Resolution 4(b)]**

Note: Mr Poh Kok Hong will, upon election as a Director of the Company, remain as Executive Director and Chief Executive Officer of the Company.

- (c) Ms Ong Joo Mien Joanna **[Resolution 4(c)]**

Note: Ms Ong Joo Mien Joanna will, upon re-election as a Director of the Company, remain as a Non-Executive Independent Director of the Company, Chairman of the Remuneration Committee and a member of the Audit Committee, and will be considered independent pursuant to Rule 704(8) of the Listing Manual of the SGX-ST.

- (d) Ms Gn Jong Yuh Gwendolyn **[Resolution 4(d)]**

Note: Ms Gn Jong Yuh Gwendolyn will, upon re-election as a Director of the Company, remain as Non-Executive Independent Director of the Company, Chairman of the Nominating Committee and a member of the Audit Committee and Remuneration Committee, and will be considered independent pursuant to Rule 704(8) of the Listing Manual of the SGX-ST.

NOTICE OF ANNUAL GENERAL MEETING

(e) Mr Sim Guan Seng

[Resolution 4(e)]

Note: Mr Sim Guan Seng was appointed as Lead Independent Director with effect from 6 July 2020 and will, upon election as a Director, remain as Lead Independent Director of the Company, Chairman of the Audit Committee and a member of the Nominating Committee, and will be considered independent pursuant to Rule 704(8) of the Listing Manual of the SGX-ST.

(f) Mr Kong Chee Keong

[Resolution 4(f)]

Note: Mr Kong Chee Keong was appointed as Non-Executive Independent Director with effect from 6 July 2020 and will, upon election as a Director, remain as Non-Executive Independent Director of the Company and a member of the Audit Committee, Nominating Committee and Remuneration Committee, and will be considered independent pursuant to Rule 704(8) of the Listing Manual of the SGX-ST.

5. To note the retirement of Mr Wang Zhi who is retiring by pursuant to Regulation 106 of the Company's Constitution.
[See Explanatory Note (1)]
6. To re-appoint Crowe Horwath First Trust LLP, Public Accountants and Chartered Accountants, as the Company's Auditors and to authorise the Directors to fix their remuneration. **[Resolution 5]**
7. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

8. Authority to allot and issue new Shares in the capital of the Company and/or instruments

That pursuant to Section 161 of the Companies Act (Cap. 50) of Singapore (the "Act") and Rule 806 of the Listing Manual of the Singapore Exchange Securities Limited (the "SGX-ST"), authority be and is hereby given to the Directors of the Company to:

- (a)
 - (i) allot and issue new shares in the capital of the Company ("Shares") (whether by way of rights, bonus or otherwise); and/or
 - (ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require new Shares to be allotted and issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into Shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

NOTICE OF ANNUAL GENERAL MEETING

(b) notwithstanding the authority conferred by this Resolution may have ceased to be in force, allot and issue shares in pursuance of any Instrument made or granted by the Directors while this Resolution was in force, provided that:

(1) the aggregate number of new Shares (including shares to be allotted and issued in pursuance of the Instruments made or granted pursuant to this Resolution) to be allotted and issued pursuant to this Resolution shall not exceed fifty per cent (50%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of new Shares to be allotted and issued other than on a pro rata basis to Shareholders of the Company (including Shares to be allotted and issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed twenty per cent (20%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) of the Company (as calculated in accordance with subparagraph (2) below);

(2) (subject to such manner of calculations as may be prescribed by the SGX-ST), for the purpose of determining the aggregate number of Shares that may be allotted and issued under sub-paragraph (1) above, the percentage of the total number of issued Shares (excluding treasury shares and subsidiary holdings) shall be based on the total number of issued Shares (excluding treasury shares and subsidiary holdings) of the Company at the time this Resolution is passed after adjusting for:–

(a) new Shares arising from the conversion or exercise of the Instruments or any convertible securities;

(b) new Shares arising from exercising of share options or vesting of share awards, provided that the share options or share awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST; and

(c) any subsequent bonus issue, consolidation or subdivision of Shares;

Any adjustments made in accordance with sub-paragraphs (2)(a) or (2)(b) above shall only be made in respect of new Shares arising from convertible securities and Instruments which were issued and outstanding and/or subsisting at the time of the passing of this Resolution.

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution of the Company for the time being; and

(4) unless revoked or varied by the Company in general meeting, the authority conferred by this Resolution shall continue in force until the conclusion of the next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier.

[See Explanatory Note (2)]

[Resolution 6]

NOTICE OF ANNUAL GENERAL MEETING

9. Authority to grant options and to allot and issue Shares under the Darco Performance Share Plan

That pursuant to Section 161 of the Companies Act (Cap. 50) of Singapore (the "Act"), the Directors of the Company be and are hereby authorised to offer and grant awards in accordance with the provision of the Darco Performance Share Plan (the "Share Plan") and to issue from time to time such number of shares in the capital of the Company (excluding treasury shares and subsidiary holdings) as may be required to be issued pursuant to the vesting of share awards under the Share Plan, whether granted during the subsistence of this authority or otherwise, provided always that the aggregate number of additional ordinary shares to be issued pursuant to the Share Plan shall not exceed fifteen per centum (15%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (3)]

[Resolution 7]

By Order of the Board

Tan Wei Jie Joel
Company Secretary
Singapore, 13 April 2021

Explanatory Notes:

1. Mr Wang Zhi, the Non-Executive Deputy Chairman and Non-Executive Director, a member of the Nominating Committee and Remuneration Committee will retire in accordance with Regulation 106 of the Company's Constitution at the Annual General Meeting. Mr Wang Zhi will not be seeking re-election at the Annual General Meeting and will ipso facto cease to be the Non-Executive Deputy Chairman and Non-Executive Director, a member of the Nominating Committee and Remuneration Committee of the Company. His retirement from the Board of Directors will take effect upon the conclusion of the Annual General Meeting.
2. The Ordinary Resolution 6 proposed in item 8 above, if passed, will empower the Directors of the Company from the date of this Meeting until the date of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is earlier, to issue shares, make or grant Instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding, in total, fifty per centum (50%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company, of which up to twenty per centum (20%) may be issued other than on a pro rata basis to existing shareholders of the Company. For determining the aggregate number of shares that may be issued, the total number of issued shares (excluding treasury shares and subsidiary holdings) will be calculated based on the total number of issued shares (excluding treasury shares and subsidiary holdings) at the time Resolution 6 is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or the vesting of share awards which are outstanding or subsisting at the time when Resolution 6 is passed, and any subsequent bonus issue, consolidation or subdivision of shares.
3. The Ordinary Resolution 7 proposed in item 9 above, if passed, will empower the Directors of the Company, from the date of this Annual General Meeting until the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares in the Company pursuant to the vesting of share awards under the Share Plan (for the entire duration of the Share Plan) provided that the aggregate additional shares to be issued pursuant to the Share Plan do not exceed fifteen per centum (15%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company from time to time.

NOTICE OF ANNUAL GENERAL MEETING

Notes to Shareholders on arrangements for the Annual General Meeting:

1. Printed copies of this Notice of Annual General Meeting and the Annual Report for the financial year ended 31 December 2020 (the "FY2020 Annual Report") will not be sent to members. This Notice of Annual General Meeting and the FY2020 Annual Report may be accessed at the Company's website at the URL <https://www.darcowater.com/Investor%20Information/company-info/annual-general-meeting-2021>. This Notice of Annual General Meeting and the FY2020 Annual Report are also available on SGXNET at the URL <https://www.sgx.com/securities/company-announcements>.
2. Alternative arrangements relating to attendance at the Annual General Meeting of the Company via electronic means (including arrangements by which the meeting may be electronically accessed via live audio-visual webcast or live audio-only stream), submission of questions to the Chairman of the Meeting in advance of the Annual General Meeting of the Company, addressing of substantial and relevant questions at the Annual General Meeting of the Company and voting by appointing the Chairman of the Meeting as proxy at the Annual General Meeting of the Company, are set out in the Company's accompanying announcement dated 13 April 2021. This announcement may be accessed at the Company's website at the URL <https://www.darcowater.com/Investor%20Information/company-info/annual-general-meeting-2021> and is also available on SGXNET at the URL <https://www.sgx.com/securities/company-announcements>.
3. **Due to the current Covid-19 advisories issued by the relevant authorities in Singapore and the related safe distancing measures in Singapore, the Annual General Meeting of the Company will be held by way of electronic means and a member will not be able to attend the Annual General Meeting in person. A member (whether individual or corporate) must appoint the Chairman of the Meeting his/her/its proxy to attend, speak and vote on his/her/its behalf at the Annual General Meeting if such member wishes to exercise his/her/its voting rights at the Annual General Meeting.** The Proxy Form for the Annual General Meeting of the Company may be accessed at the Company's website at the URL <https://www.darcowater.com/Investor%20Information/company-info/annual-general-meeting-2021> and is also available on SGXNET at the URL <https://www.sgx.com/securities/company-announcements>. Where a member (whether individual or corporate) appoints the Chairman of the Meeting as his/her/its proxy, he/she/it must give specific instructions as to voting, or abstentions from voting, in respect of a resolution in the Proxy Form, failing which the appointment of the Chairman of the Meeting as proxy for that resolution will be treated as invalid.
4. The Chairman of the Meeting, acting as proxy, need not be a member of the Company.
5. The Proxy Form must be submitted to the Company in the following manners:
 - (i) if submitted by post, be deposited at registered office of the Company at Harvest@Woodlands, 280 Woodlands Industrial Park E5, #09-36 Singapore 757322; or
 - (ii) if submitted electronically, be submitted via email in Portable Document Format (PDF) format to the Company at AGM2021@darcowater.com.

in either case, at least 72 hours before the time fixed for holding the Annual General Meeting of the Company and/or any adjournment thereof. A member who wishes to submit the Proxy Form must first download, complete and sign the Proxy Form, before submitting it by post to the address provided above, or by scanning and submitting it by way of electronic means via email to the email address provided above. **In view of the current COVID-19 restriction orders and the related safe distancing measures in Singapore which may make it difficult for members to submit the completed Proxy Forms by post, members are strongly encouraged to submit the completed Proxy Forms by way of electronic means via email.**

PERSONAL DATA PRIVACY:

By submitting a proxy form appointing the Chairman of the Meeting as proxy to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing and administration and analysis by the Company (or its agents or service providers) of the appointment of the Chairman of the Meeting as proxy for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines.

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PROXY FORM

DARCO WATER TECHNOLOGIES LIMITED

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

IMPORTANT:

1. The Annual General Meeting ("AGM") is being convened, and will be held, by way of electronic means pursuant to the COVID-19 (Temporary Measures) (Alternative Arrangements for Meetings for Companies, Variable Capital Companies, Business Trusts, Unit Trusts and Debenture Holders) Order 2020.
2. The Notice of AGM is also accessible (a) via publication on the Company's website at the URL <https://www.darcowater.com/Investor%20Information/company-info/annual-general-meeting-2021>; and (b) via publication on the SGX website at the URL <https://www.sgx.com/securities/company-announcements>.
3. CPF or SRS investors who wish to appoint the Chairman of the meeting as proxy should approach their respective CPF Agent Banks or SRS Operators to submit their votes at least seven (7) working days before the AGM.
4. By submitting this proxy form, the member accepts and agrees to the personal data privacy terms set out in the Notice of AGM dated 13 April 2021.
5. Please read the notes overleaf which contain instructions on, inter alia, the appointment of the Chairman of the Meeting as a member's proxy to attend, speak and vote on his/her/its behalf at the AGM

I/We, _____ (Name) _____ (NRIC/Passport/Company Registration Number)

of _____ (Address)

being member/members* of **DARCO WATER TECHNOLOGIES LIMITED** (the "Company"), hereby appoint the Chairman of the Annual General Meeting of the Company ("AGM") as my/our* proxy/proxies* to attend, speak and vote for me/us* on my/our* behalf at the AGM to be convened and held by way of electronic means on Wednesday, 28 April 2021 at 2:00 p.m. and at any adjournment thereof in the following manner:

	Resolutions relating to:	For	Against	Abstain
	Ordinary Business			
1.	To adopt the Audited Financial Statements and Directors' Statement of the Company and the Group for the financial year ended 31 December 2020			
2.	Approval of Directors' fees amounting to S\$135,055 for the financial year ended 31 December 2020			
3.	Approval of Directors' fees amounting to S\$138,000 for the financial year ended 31 December 2021, payable quarterly in arrears			
4(a).	Re-election of Mr Wang Yaoyu as a Director of the Company (Retiring pursuant to Regulation 106)			
4(b).	Re-election of Mr Poh Kok Hong as a Director of the Company (Retiring pursuant to Regulation 106)			
4(c).	Re-election of Ms Ong Joo Mien Joanna as a Director of the Company (Retiring pursuant to Regulation 106)			
4(d).	Re-election of Ms Gn Jong Yuh Gwendolyn as a Director of the Company (Retiring pursuant to Regulation 106)			
4(e).	Re-election of Mr Sim Guan Seng as a Director of the Company (Retiring pursuant to Regulation 106)			
4(f).	Re-election of Mr Kong Chee Keong as a Director of the Company (Retiring pursuant to Regulation 106)			
5.	Re-appointment of Crowe Horwath First Trust LLP, Public Accountants and Chartered Accountants, as the Company's auditors and to authorise the Directors to fix their remuneration			
	Special Business			
6.	Authority to allot and issue new Shares in the capital of the Company and/or Instruments			
7.	Authority to grant options and issue shares under the Darco Performance Share Plan			

If you wish to appoint the Chairman of the Meeting as your proxy to cast all your votes For or Against a resolution, please tick with "√" in the "For" or "Against" box in respect of that resolution. Alternatively, please indicate the number of votes "For" or "Against" in the "For" or "Against" box in respect of that resolution. If you wish to appoint the Chairman of the Meeting as your proxy to abstain from voting on a resolution, please tick with "√" in the "Abstain" box in respect of that resolution. Alternatively, please indicate the number of shares that the Chairman of the Meeting, as your proxy, is directed to abstain from voting in the "Abstain" box in respect of that resolution. In the absence of specific directions in respect of a resolution, the appointment of the Chairman of the Meeting as your proxy for that resolution will be treated as invalid.

Voting will be conducted by poll

Dated this _____ day of _____ 2021

Total Number of Shares	Number of Shares
CDP Register	
Register of Members	

Signature(s) of Shareholder(s)
or Common Seal of Corporate Shareholder

IMPORTANT: PLEASE READ NOTES OVERLEAF BEFORE COMPLETING THIS PROXY FORM

NOTES:

1. Printed copies of the Notice of AGM and the Annual Report for the financial year ended 31 December 2020 (the "FY2020 Annual Report") will not be sent to members. The Notice of AGM and the FY2020 Annual Report may be accessed at the Company's website at the URL <https://www.darcowater.com/Investor%20Information/company-info/annual-general-meeting-2021>. The Notice of AGM and the FY2020 Annual Report are also available on SGXNET at the URL <https://www.sgx.com/securities/company-announcements>.
2. Alternative arrangements relating to attendance at the AGM of the Company via electronic means (including arrangements by which the meeting may be electronically accessed via live audio-visual webcast or live audio-only stream), submission of questions to the Chairman of the Meeting in advance of the AGM of the Company, addressing of substantial and relevant questions at the AGM of the Company and voting by appointing the Chairman of the Meeting as proxy at the AGM of the Company, are set out in the Company's accompanying announcement dated 13 April 2021. This announcement may be accessed at the Company's website at the URL <https://www.darcowater.com/Investor%20Information/company-info/annual-general-meeting-2021> and is also available on SGXNET at the URL <https://www.sgx.com/securities/company-announcements>.
3. Please insert the total number of shares held by you. If you have shares registered in your name in the Register of Members, you should insert that number of shares. If no number is inserted, this Proxy Form shall be deemed to relate to all the shares held by you.
4. **Due to the current Covid-19 advisories issued by the relevant authorities in Singapore and the related safe distancing measures in Singapore, the AGM of the Company will be held by way of electronic means and a member will not be able to attend the AGM in person. A member (whether individual or corporate) must appoint the Chairman of the Meeting as his/her/its proxy to attend, speak and vote on his/her/its behalf at the AGM if such member wishes to exercise his/her/its voting rights at the AGM.** This proxy form is also accessible (a) via the Company's website at the URL <https://www.darcowater.com/Investor%20Information/company-info/annual-general-meeting-2021>, and (b) via the SGX website at the URL <https://www.sgx.com/securities/company-announcements>. Where a member (whether individual or corporate) appoints the Chairman of the Meeting as his/her/its proxy, he/she/it must give specific instructions as to voting, or abstentions from voting in respect of a resolution in the proxy form, failing which the appointment of the Chairman of the Meeting as proxy for that resolution will be treated as invalid.
5. The Chairman of the Meeting, as proxy, need not be a member of the Company.
6. The proxy form must be submitted to the Company in the following manner:
 - (a) if submitted by post, be lodged with registered office of the Company at Harvest@Woodlands, 280 Woodlands Industrial Park E5, #09-36 Singapore 757322; or
 - (b) if submitted electronically, be submitted via email in Portable Document Format (PDF) format to the Company at AGM2021@darcowater.com,in either case, at least 72 hours before the time for holding the AGM. A member who wishes to submit this Proxy Form must first download, complete and sign this Proxy Form, before submitting it by post to the address provided above, or by scanning and submitting it by way of electronic means via email to the email address provided above. **In view of the current Covid-19 situation and the related safe distancing measures which may make it difficult for members to submit completed proxy forms by post, members are strongly encouraged to submit completed proxy forms electronically via email.**
7. Where the proxy form is executed by an individual, it must be executed under the hand of the individual or his attorney duly authorised. Where the proxy form is executed by a corporation, it must be executed either under its common seal or under the hand of any officer or attorney duly authorised.
8. Where the proxy form is executed under the hand of an attorney duly authorised, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the proxy form, failing which the proxy form may be treated as invalid.
9. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the AGM, in accordance with Section 179 of the Act.

GENERAL:

The Company shall be entitled to reject an instrument of proxy which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the proxy form. In addition, in the case of Shares entered in the Depository Register, the Company may reject a proxy form if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the AGM, as certified by The Central Depository (Pte) Limited to the Company.

A Depositor shall not be regarded as a member of the Company entitled to attend the AGM and to speak and vote thereat unless his name appears on the Depository Register **72 hours before the time set for the AGM**.

PERSONAL DATA PRIVACY:

By submitting a proxy form appointing the Chairman of the Meeting as proxy to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents of service providers) for the purpose of the processing and administration and analysis by the Company (or its agents or service providers) of the appointment of the Chairman of the Meeting as proxy for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines.

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DARCO WATER TECHNOLOGIES LIMITED

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