SOLUTIONS TO WATER & WASTE

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

RESPONSES TO SINGAPORE EXCHANGE SECURITIES TRADING LIMITED'S QUERIES ON THE COMPANY'S ANNOUNCEMENT – UNAUDITED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2019

The Board of Directors ("**Directors**") of Darco Water Technologies Limited ("**Company**" and together with its subsidiaries, collectively, "**Group**") refers to the Company's unaudited financial statements for the half year ended 30 June 2019 released on the SGXNET 13 August 2019. The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 16 August 2019 (each, an "**SGX Query**") as follows:

SGX Query 1:

With reference to the unaudited financial statements for the period ended 30 June 2019, please disclose the factors which led to
(i) Increase in revenue from the trading segment
(ii) Increase in trade receivables from the China subsidiary and decrease in trade receivables from Malaysia subsidiaries
(iii) Decrease in trade payables

Company's response to SGX Query 1:

(i) Revenue from the Trading segment increased from $6.8 million in 1H2018 to $8.3 million in 1H2019 mainly due to the higher contribution from the Malaysian subsidiaries. During 1H2019, the trading sales in Malaysia has increased mainly due to higher demand of certain chemicals from its existing customers for use in their water treatment plant.

(ii) The outstanding receivables in the China subsidiary has increased from $8.6 million as at 31 December 2018 to $14.0 million as at 30 June 2019. This is mainly due to the China subsidiary fulfilling percentage completion milestones for several major projects in 1H2019, and it allowed the subsidiary to bill its customers. Therefore, total invoices issued in 1H2019 which remained unpaid amount to $9.4 million.

The outstanding receivables in the Malaysia subsidiaries has decreased from $9.8 million as at 31 December 2018 to $6.8 million as at 30 June 2019. This is mainly due to the subsidiaries having received payment for the amount due from major customers during 1H2019.

(iii) The outstanding trade payables in China has decreased from $23.2 million as at 31 December 2018 to $18.2 million as at 30 June 2019. This is in line with the decline in revenue of our China subsidiary.

The outstanding trade payables in Malaysia has decreased from $5.7 million as at 31 December 2018 to $2.3 million as at 30 June 2019. The decrease in trade payables is mainly due to payments being made to various suppliers during 1H2019.

SGX Query 2:

Paragraph 5 of Appendix 7.2 Financial Statements and Dividend Announcement states that in the case of half-year and full year announcements, issuers must present the following statements in the form presented in the issuer's most recently audited annual financial statements:

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

Please elaborate on the new standards disclosed under Paragraph 5 of Appendix 7.2.

Company's response to SGX Query 2:

SFRS(I) 16 Leases
This new standard on leases brings in a new definition of a lease that will be used to identify whether a contract is, or contains, a lease. For leasees, SFRS(I) 16 reforms lease accounting by introducing a single model similar to the existing finance lease model. Specifically, lessees are required to recognise all leases on their statements of financial position to reflect their rights to use leased assets and the associated obligations for lease payments, with limited exemptions. However, lessor accounting, with the distinction between operating and finance leases, remains largely unchanged.

Implementation of SFRS(I) 16 will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. The standard will affect primarily the Group's accounting for operating leases. The Group applied the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

Based on the Management's assessment, the Group has non-cancellable operating lease commitments of $160,000, which would be an appropriate indicator of the SFRS(I) 16 implementation impact on the Group's consolidated statement of financial position as at 30 June 2019. The Group has not recognised the commitment amount on the Group's consolidated statement of financial position as at 30 June 2019 as the amount is deemed to be immaterial to the overall financial results.

By Order of the Board

Poh Kok Hong
Chief Executive Officer
22 August 2019