



**BETTER SOLUTIONS TO WATER & WASTE**  
**DARCO WATER TECHNOLOGIES LIMITED**  
(Company Registration No. 200106732C)  
(Incorporated in the Republic of Singapore)

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**RESPONSES TO SINGAPORE EXCHANGE SECURITIES TRADING LIMITED'S QUERIES ON THE ANNOUNCEMENT OF FULL YEARLY RESULTS FOR THE PERIOD ENDED 31 DECEMBER 2023**

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The Board of Directors ("**Directors**") of Darco Water Technologies Limited ("**Company**" and together with its subsidiaries, collectively, "**Group**") refers to the Company's announcement of full yearly results for the period ended 31 December 2023 ("**FY2023**") released on the SGXNET on 27 February 2024. The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 24 March 2024 (each, an "**SGX Query**") as follows:

**SGX Query 1:**

It is disclosed on page 19 of the unaudited financial statements that impairment loss on financial assets increased from \$0.6 million in FY2022 to \$3.5 million mainly due to impairment made on contract assets, trade and other receivables (the "Financial Assets") for the year ended 31 December 2023. In this regard, please disclose the following information:

- (i) the underlying transactions of these Financial Assets impaired;
- (ii) the Company's plans to recover these Financial Assets;
- (iii) whether they are major customer(s) and whether the Company continues to transact with these customer(s) and if so, what are the commercial reasons in doing so;
- (iv) what were the actions taken to recover these Financial Assets;
- (v) the reasons for the impairment on Financial Assets, including the reasons for delays or non-payment, where applicable;
- (vi) the Board's opinion on the reasonableness of the methodologies used to determine the value of the impairment of the Financial Assets; and
- (vii) the Board's assessment of the recoverability of the remaining contract assets, trade and other receivables.

**Company's response to SGX Query 1:**

Consolidated replies for (i), (ii),(iii), (iv) and (v) as below:

**(i) the underlying transactions of these Financial Assets impaired.**

**(iii) whether they are major customer(s) and whether the Company continues to transact with these customer(s) and if so, what are the commercial reasons in doing so.**

**(v) the reasons for the impairment on Financial Assets, including the reasons for delays or non-payment, where applicable.**

<b>(i) Description of the underlying transactions of these Financial Assets impaired</b>	<b>S\$'000</b>	<b>(iii) Whether they are major customer(s) and whether the Company continues to transact with these customer(s) and if so, what are the commercial reasons in doing so</b>	<b>(v) The reasons for the impairment on Financial Assets, including the reasons for delays or non-payment</b>
Trade receivables and contract assets related to an EPC wastewater project in China	1,347	Not a major customer of the Group, and there is no plan to continue transactions with this customer.	<p>The Project was completed in 2022.</p> <p>We are the subcontractor of the project, our customer (main contractor) and the project owner were unable to finalise the project's final claim payment. .</p> <p>Nevertheless, we are in the negotiations with the main contractor and project owner while taking the view that recoverability of the outstanding amount is low.</p>
Trade receivables related to an EPC wastewater project related to a Power Plant in China	523	<p>Not a major customer of the Group.</p> <p>The customer is a China State-Owned Enterprise ("S.O.E.") owned by central government, which is financially robust and one of the high-demand customers in wastewater market in China. Our arguments lie predominantly are on technical aspects. In future interactions with this customer, we will prioritise highlighting contract details to minimise the risks linked with technical disagreements.</p>	<p>The Project was completed in 2022.</p> <p>Despite our efforts, we encountered difficulties securing the final claim payments from the customer.</p> <p>Nevertheless, we are in the negotiations with the customer and preparing to pursue legal procedures as the next course of action.</p>

Trade receivables related to an EPC wastewater project in China	63	<p>Not a major customer of the Group.</p> <p>The customer is a China S.O.E. and an energy producer with a high demand for wastewater treatment. In future transactions with this customer, we will proceed cautiously and ensure detailed contract terms to prevent any differences in interpretation.</p>	<p>The Project was completed in 2023.</p> <p>We are the subcontractor of the project, our customer (main contractor) and the project owner were unable to finalise the project's final claim payment due to technical arguments.</p> <p>Nevertheless, we are in the negotiations with the main contractor and project owner while taking the view that recoverability of the outstanding amount is low.</p>
Contract assets related to an EPC wastewater project in Xin Jiang Tian Bei new District, China	963	<p>Not a major customer of the Group, and there is no plan to continue transactions with this customer.</p>	<p>Refer to our previous announcements on 14 June 2022, the Court has issued its judgment that the customer shall pay the overdue amount to the Group. With the court judgement and partial repayment received in early 2023, the Group has made the reversal of unutilised ECL amounting to S\$1.0 million in FY2022.</p> <p>Despite these developments, the Group did not receive further repayment on the remaining outstanding amount during FY2023 and has encountered challenges in securing any further available assets owed by the customer.</p> <p>Consequently, while legal proceedings are still ongoing, we take the view that the recoverability of the outstanding amount is low, full provision has been made on the remaining outstanding amount.</p>
Other receivable related to a refundable deposit paid as part-payment under a framework agreement entered into by the Group with a counterparty with the intention to acquire 90% equity interest in a company in Vietnam.	813	<p>Not a major customer of the Group, and there is no plan to continue transactions with this customer.</p>	<p>During FY2023, we received partial repayment from the counterparty, but there was a default on the remaining amount. Negotiations were conducted with the counterparty, no positive progress has been achieved thus far.</p> <p>Consequently, we take the view that the recoverability of the outstanding amount is low. Legal proceedings have been initiated against the counterparty.</p>



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Trade receivables related to in Vietnam	216	Not a major customer of the Group, and there is no plan to continue transactions with this customer.	<p>In FY2023, our subsidiary has entered into a settlement agreement with the customer, targeting to resolve outstanding repayment obligations. Despite our dedicated efforts and negotiations with the customer, challenges with repayment arose, resulting in a default on the outstanding amounts.</p> <p>Consequently, we take the view that the recoverability of the outstanding amount is low. Legal proceedings have been initiated against the counterparty.</p>
Other receivables related to a payment to purchase a water plant in Vietnam	169	Not a major customer of the Group, and there is no plan to continue transactions with this customer.	<p>In FY2021, our subsidiary has entered into a settlement agreement with the counterparty. During FY2021 and FY2022, we received repayments from the counterparty, but there was a default on the remaining amount in FY2023. Negotiations were conducted with the counterparty, no positive progress has been achieved thus far.</p> <p>Consequently, we take the view that the recoverability of the outstanding amount is low. Legal proceedings have been initiated against the counterparty.</p>
Reversal of General Provision and Others - various customers (i.e. individually below S\$100,000)	(557)		
<b>Total</b>	<b>3,537</b>		



The Group maintains a diligent oversight over the ageing of these Financial Assets, conducting regular reviews and closely monitoring the payment status with customers and counterparties. The Group is committed to ongoing engagements with the customers and counterparties, ensuring diligent efforts in recovering these Financial Assets.

Furthermore, the Group has taken proactive measures, including engaging legal counsel for issuing letter of demand, pursuing arbitration cases and initiating legal proceedings against companies when a mutually agreed repayment solution cannot be achieved, including resorting to arbitrations (e.g.: refer to Company's announcement dated 14 June 2022). The Group will continue to seek legal advice on possible recourse actions to recover the outstanding debts. In addition to the above, the Group will continue to refine its credit control policies to mitigate future credit risks.

**(vi) the Board's opinion on the reasonableness of the methodologies used to determine the value of the impairment of the Financial Assets.**

The Group determines the expected credit losses ("ECL") of Financial Assets both individually and collectively, and makes debtor specific assessments of overdue Financial Assets 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. The Management has scrutinised the reliability of the methodologies, ensuring alignment with the principles outlined in SFRS(I) 9 to facilitate prudent impairment assessments. The Board has reviewed and obtained an understanding of the methodology adopted by the Management and considered that the methodologies in valuation of Financial Assets in relation to ECL to be reasonable.

**(vii) the Board's assessment of the recoverability of the remaining contract assets, trade and other receivables.**

The Management has conducted a thorough evaluation of the recoverability of contract assets, trade and other receivables (collectively referred to as "Financial Assets") individually and collectively based on the age of debts to identify any expected credit losses. The Management also estimates the expected credit loss rates for each category of past due status of the Financial Assets based on historical credit loss experience, adjusted by forward-looking factors specific to those customers and the economic environment. On that basis, the Management has assessed that no impairment is necessary for the remaining Financial Assets. The Board has reviewed and accepted Management's analysis and estimates and will continue to oversight on the progress of the recoverability of the remaining Financial Assets.



**SGX Query 2:**

Please explain why interest income amounted to only S\$102,000 during the year ended 31 December 2023 when the Company has significant cash and bank balance amounting to S\$12,842,000.

**Company's response to SGX Query 2:**

The Group maintains cash and bank balances totalling S\$12.8 million primarily in its subsidiaries to facilitate their working capital needs for daily operations and ongoing projects. Consequently, most of the Group's cash and cash equivalents are held in current accounts which typically offer lower interest rates.

**SGX Query 3:**

Please provide the reason(s) for the significant borrowings of S\$5,872,000 by the Group when the Group recorded a cash and cash equivalent of S\$12,842,000 as at 31 December 2023.

Please disclose:

- (i) details of the loan, including the terms of the loan, interest on loans and maturity dates;
- (ii) a breakdown of the lenders and their identities (and its ultimate beneficial shareholders and directors if this is not a bank);
- (iii) when were the loans obtained and approved by the Board including the Audit Committee; and
- (iv) the use of proceeds from the loan.

**Company's response to SGX Query 3:**

Consolidated replies for (i) to (iv) as below:

Description	Terms of loans / Use of proceeds from the loan / Approval	Lender	Interest	Maturity	Total (\$'000)
Bank overdraft	<ul style="list-style-type: none"> <li>• Secured by a mortgage on the freehold land and building of a Malaysia subsidiary.</li> <li>• Corporate guarantee provided by the Company</li> <li>• Proceeds used for daily operations.</li> <li>• Obtained in Year 2018</li> </ul>	Ambank	7.45% to 7.70%	On demand	1,150



Description	Terms of loans / Use of proceeds from the loan / Approval	Lender	Interest	Maturity	Total (\$'000)
Term loan I	<ul style="list-style-type: none"> <li>Obtained by a Malaysia subsidiary in Year 2012 and 2019 respectively, to finance the acquisition of leasehold land and operational cash flows.</li> <li>Secured by pledges over subsidiary's freehold lands, freehold buildings and leasehold lands and buildings.</li> <li>Corporate guarantee provided by the Company.</li> <li>Proceeds used for acquisition of leasehold land, material purchases and daily operations.</li> </ul>	Public Bank	4.60%	26 November 2032	59
Term loan II		Ambank	4.40%	30 April 2034	662
Term loan III	<ul style="list-style-type: none"> <li>5-year loan obtained by a Singapore subsidiary in Year 2020 to finance working capital.</li> <li>Corporate guarantee is provided by the Company.</li> <li>Proceeds used for daily operations.</li> </ul>	Maybank	2.50%	11 September 2025	361
Term loan V	<ul style="list-style-type: none"> <li>10-year loan obtained by a Vietnam subsidiary in Year 2022 to finance construction and construction related activities in Ba Lai Project.</li> <li>Secured by pledged over assets and shares of a Vietnam subsidiary.</li> <li>Proceeds used for construction and construction related activities.</li> </ul>	Vietcombank	7.80%	5 March 2033	2,209
Trust receipts	<ul style="list-style-type: none"> <li>Obtained by a Singapore subsidiary.</li> <li>Corporate guarantee provided by the Company.</li> <li>Proceeds used for operational cash flows.</li> </ul>	Maybank and DBS Bank	3.60% to 7.61%		1,431
<b>Total</b>					<b>5,872</b>

The above loans, overdraft and trust receipts facilities were approved by the board of the respective entities and the Board of the Company as required in accordance to our Group charter. No separate approval from Audit Committee is required.



**SGX Query 4:**

Given the Group's significant current liabilities of S\$37,744,000 and cash and bank balance of only S\$12,842,000 and noting that the Company incurred net losses of S\$5,990,000 for the financial year ended 31 December 2023, please disclose the Board's assessment on how the Company intends to fulfil its significant payment obligations in the next 12 months. Where the Company has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Company is on track to fulfilling these obligations.

**Company's response to SGX Query 4:**

As at 31 December 2023, the Group has current assets of S\$52,400,000 and current liabilities of S\$37,744,000, which will result in net current assets of S\$14,656,000 (i.e. current assets less current liabilities). In addition, the Group's current ratio was 1.39, healthy gearing ratio at 0.46 times as at 31 December 2023 together reflect the solid balance sheet position.

The Board and Management have been actively assessing and formulating strategies to ensure that the Group's ability to fulfil these payment obligations in a responsible and sustainable manner.

The strategies for fulfilling payment obligations include:

- i. Cash Flow Management: We are actively managing our cash flows to allocate funds effectively, prioritising payment obligations such as debt servicing, supplier payments, and operational expenses. Notably, among current liabilities are trade and other payables, with collections from trade receivables earmarked for meeting short-term payment obligations, aligning short-term liabilities with short-term assets.
- ii. Cost Control: Our ongoing efforts in closely monitoring and controlling the costs to optimise operational expenses, enhance efficiency, and minimise discretionary spending.
- iii. Exploring Funding Options: We are actively exploring various funding options, including refinancing opportunities, to strengthen our liquidity position.

These measures underscore our commitment to actively manage our financial obligations and ensure the sustained financial health of the Group. The Management does not foresee any significant risk for paying off the obligations in the next 12 months.

**By Order of the Board**

Zhang Zhenpeng  
Executive Director and Chief Executive Officer  
8 April 2024