
RESPONSES TO SINGAPORE EXCHANGE SECURITIES TRADING LIMITED'S QUERIES ON THE UNAUDITED HALF YEAR RESULTS FOR THE PERIOD ENDED 30 JUNE 2023

The Board of Directors (“**Directors**”) of Darco Water Technologies Limited (“**Company**” and together with its subsidiaries, collectively, “**Group**”) refers to the Company’s unaudited half year results for the period ended 30 June 2023 (“**1H2023**”) released on the SGXNET on 10 August 2023. The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 3 October 2023 (each, an “**SGX Query**”) as follows:

SGX Query 1:

In relation to the current trade and other receivables amounting to S\$45,468,000 as of 30 June 2023, please disclose:

- (i) a breakdown of the Group’s other receivables amounting to S\$7,568,000;
- (ii) aging of the Group’s other receivables;
- (iii) details of the Group’s underlying transactions of its other receivables and the terms of the transactions;
- (iv) the Company’s plans to recover the trade and other receivables;
- (v) What were the actions taken to recover the trade and other receivables;
- (vi) The Board’s assessment of the recoverability of the remaining trade and other receivables.

Company’s response to SGX Query 1:

- (i) a breakdown of the Group’s other receivables amounting to S\$7,568,000;

Breakdown of the Group’s other receivables	30 June 2023 S\$’000	Underlying transactions
Other receivables (third parties), gross	3,854	Other receivables include tender deposits of \$467k and these are unsecured and non-interest bearing. It also included an amount due from a vendor of US\$200k net (S\$266k equivalent) which shall be settled by way of the transfer of the 5% Ba Lai Shares to the Company as per the Deed of Settlement (refer to the Company’s announcement dated 29 December 2021). The transfer of 5% Ba Lai Shares is in process.
Less: Allowance for impairment losses	(2,499)	
Other receivables (third parties), net	1,355	



Refundable deposits, gross	792	Refundable deposits comprise mainly an amount of US\$626,000 pertains to an earlier refundable deposit paid 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. The Group has entered into deed of settlement with the Vendor (Please also refer to Notes to financial statement 9 (ii) on page 122 of Annual Report FY2022). The amount is guaranteed by an individual, who is the shareholder of the Vendor.
Less: Allowance for impairment losses	(68)	
Refundable deposits, net	724	
Staff loans	417	Relate to advances to staff during the normal course of business operation which are repayable on demand.
Prepayments	180	Mainly comprised prepayment made for insurance, rental and other operating expenses in the ordinary course of business.
Advances to suppliers	3,673	Mainly consist of advances to suppliers relating to projects.
GST / VAT receivables	1,219	Mainly Goods and Services Tax and Value Added Tax recoverable.
	7,568	

(ii) aging of the Group’s other receivables;

	< 1 year	> 1 year	Total
	S\$’000	S\$’000	S\$’000
Total gross carrying amount	6,415	3,719	10,135
Less Allowance	-	(2,567)	(2,567)
	6,415	1,152	7,568

Note: Please refer to Company’s response to SGX Q1 (vi) on the assessment of the recoverability.

(iii) details of the Group’s underlying transactions of its other receivables and the terms of the transactions;

Please refer to (i)



(iv) the Company's plans to recover the trade and other receivables;

The Group is regularly monitoring and reviewing the trade and other receivables ageing and following up the payment status with customers and counterparties. The Group will continue to engage the customers and manages the collections in accordance with the agreed credit terms. In addition to the above, the Group has also engaged legal counsel for issuing letter of demand and arbitration cases and will continue to seek legal advice on possible recourse actions to recover the debts.

(v) What were the actions taken to recover the trade and other receivables;

The Group continues to engage its customers and manages collections on the agreed terms of payments and continues to work with customers on agreed settlement terms after evaluation of each case. The Group has also initiated 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).

(vi) The Board's assessment of the recoverability of the remaining trade and other receivables.

The Management has examined the recoverability of trade receivables 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 trade receivables based on historical credit loss experience. On that basis, the Management has assessed that no impairment is necessary for the remaining trade receivables. The Board has reviewed and accepted Management's analysis and estimates and will continue to have oversight on the progress of the recoverability of the remaining trade receivables.

SGX Query 2:

It is noted that the Company has a net cash outflow from operating activities of S\$8,110,000 and a net profit of S\$506,000 for the financial period ended 30 June 2023. Please explain why the Company is unable to generate net cash inflow from its operating activities, despite the Company's net profit position for the financial period.

Company's response to SGX Query 2:

Cash used in operating activities in 1H2023 was mainly due to cash outflow amounting to \$3.6 million to fund construction of Ba Lai project in Vietnam. Ba Lai project refers to the concession project to supply drinking water in Ben Tre Province of Vietnam where technical studies and development started in Year 2018 and then construction commenced in January 2021. Significant construction work has been carried out in 1H2023 and the Ba Lai project has commenced operation in June 2023.



On top of the above, the net cash outflows in trade and other receivables mainly due to higher outstanding billing in a subsidiary in Malaysia as business activity picked up as well as the differences in the timing of billing and collections. Meanwhile, the net cash outflows in trade and other payables mainly due to our efforts to bring supplier payments up to date in alignment with the progress of our projects.

SGX Query 3:

It is disclosed in the unaudited financial statements that, the increase in other income was mainly due to the write-back of other payables. Please disclose the reason for the write-back of other payables of \$279,000 and how the amount of \$279,000 is being arrived at.

Company's response to SGX Query 3:

The write-back of other payables was due to that the statutory time limit for the obligation has expired. The Company has assessed that the obligation was no longer enforceable, leading to the write-back of the amount. The write-back of other payables amount have been calculated after offsetting the outstanding other receivables.

SGX Query 4:

It is disclosed on page 20 of the unaudited financial statements that, revenue from the EE Systems segment increased from \$23.5 million in 1H2022 to \$33.0 million in 1H2023. This was mainly due to higher contribution from the EPC projects in China and Malaysia subsidiaries, as well as contribution from the service concession revenue in Vietnam.

Please disclose:

- (i) the factors which led to the higher contribution from the EPC projects in China and Malaysia subsidiaries, as well as contribution from the service concession revenue in Vietnam; and
- (ii) whether there is a fixed schedule in terms of the receipts of the service concession revenue and how receipts from service concession revenue are being determined.

Company's response to SGX Query 4:

- (i) The increase in revenue from China and Malaysia subsidiaries is attributable to the easing of movement control measures. This has improved the project execution clearing the projects' backlog. The contribution from the service concession revenue was relating to revenue recognised based on the stage of completion of the construction work during the reporting period and in accordance with the policy for "Revenue from contract revenue".
- (ii) There is no fixed schedule in terms of the receipts of the service concession revenue. The revenue to be received from users in the operational phase is determined from the usage of clean water and the water tariff as agreed with the local authority. Ba Lai water treatment and supply project has just commenced operations in June 2023.

SGX Query 5:

It is stated that the non-current other receivables amounts to S\$579,000 as of 30 June 2023, please disclose:

- (i) the breakdown of the Group's other receivables;
- (ii) the nature of the non-current other receivables; and
- (iii) the Board's assessment of the recoverability of the non-current other receivables.

Company's response to SGX Query 5:

- (i) the breakdown of the Group's other receivables;

	30 June 2023 S\$'000
Other receivables - A third party	1
Refundable deposits	578
	579

- (ii) the nature of the non-current other receivables; and

Other receivables are mainly deposit paid for office rental.

Refundable deposits mainly refer to the amount due from a Vendor. Refer to Company's response to Query 1 (i) above and Notes to financial statements 9 (ii) on page 122 of Annual Report FY2022.

- (iii) the Board's assessment of the recoverability of the non-current other receivables.

The lease rental of office is still in force and the Company has been receiving payments from the Vendor. The Board currently does not foresee any recoverability issues in the absence of unforeseen circumstances.

SGX Query 6:

Given the Group's significant current liabilities of S\$40,435,000 and cash and bank balance of only S\$13,179,000, 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 6:

As at 30 June 2023, the Group has current assets of S\$62,033,000 and current liabilities of S\$40,435,000, which will result in net current assets of S\$21,598,000 (i.e. current assets less current liabilities). In addition, the Group's current ratio was 1.53, healthy gearing ratio at 0.31 times and interest coverage ratio of 2.89 as at 30 June 2023 together reflect the solid balance sheet position.

The Board and Management have been actively evaluating 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 to meet our most critical payment obligations. This includes prioritising essential expenses such as debt servicing, supplier payments, and operational expenses. Included in current liabilities was trade and other payables, of which the collections from trade receivables will be used to meet its short term payment obligations, matching short term liabilities with short term assets.
- ii. Cost Control: Cost control measures have been initiated to optimize our operational expenses, improve efficiency, and reduce discretionary spending.
- iii. Exploring Funding Options: We are actively exploring various funding options, including refinancing opportunities, to strengthen our liquidity position.

By Order of the Board

Zhang Zhenpeng
Executive Director and Chief Executive Officer
20 October 2023