

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

**FURTHER RESPONSE TO CERTAIN POINTS RAISED IN
THE ARTICLE APPEARING IN THE 26 JUNE 2020 EDITION
OF THE BUSINESS TIMES ENTITLED,
“NO NEED FOR DEPUTY CHAIRMAN TO RECUSE HIMSELF FROM INDON PROJECT”**

1. BACKGROUND

The board of directors (the “**Board**”) of Darco Water Technologies Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) refers to the article appearing in The Business Times dated 23 June 2020 (the “**26 June BT Article**”) which touched on, among others, the Company’s investment in the Indonesian waste management project (“**Project**”) through its investment in PT Panghegar Energy Indonesia (“**PEI**”) which, in turn, has an indirect interest in the Project through its 80% owned subsidiary, PT Jabar Bersih Lestari (“**JBL**”), the retirement of two independent directors as well as Qarah Consultancy Pte. Ltd. which provided certain consultancy services to the Company.

Whereas the Company is of the view that it has already addressed the concerns and issues raised in respect of the matters raised in the 26 June BT Article in the Company’s recent announcements (including the Company’s announcement released on 25 June 2020 in response to the questions raised by Shareholders in connection with the annual general meeting held on 26 June 2020), the Board would like to further respond to a few of the matters touched on in the 26 June BT Article.

2. THE COMPANY’S INVESTMENT IN THE PROJECT THROUGH PEI AND JBL

The Board has noted that there remain some misgivings among some Shareholders as to the purpose and rationale for the Company investing into the Project and its decision to continue to explore the feasibility of investing into the Project. In light of this, the Board deems it appropriate to recount the key events in relation to the Company’s acquisition of 75% shareholding interest in PEI (the “**Acquisition**”) which resulted in Company’s effective equity interest of 60% in JBL which currently holds the Project as well as to address the incorrect impression that the decisions relating to the Acquisition and the Project were made without due consideration by the Board.

Strategic Direction of the Group

It has long been the focus of the Company's management to pursue concession projects. One of the drawbacks of being purely an engineering group is that the Group's revenue is based on short-term assignments and contracts giving rise to significant fluctuations in the Group's revenue from year to year. To strengthen the Group and to deliver value to Shareholders, the leadership in the Group has sought to win long-term concession projects which are targeted to provide the Company with stable earnings. To this end, and for instance, the former Chief Executive Officer of the Group, Mr. Thye Kim Meng, had made numerous trips to Cangzhou, China in 2018 to secure for the Group a hazardous liquid waster treatment project, which was ultimately not successful. Over the years, in particular, between 2017 until his retirement in 2019, under the leadership of Mr. Thye, the Group had also made its foray into water concession projects in Vietnam. Following the exit of Mr. Thye from the Management of the Company, the Group (under the leadership of the current Chief Executive Officer, Mr. Poh Kok Hong) continued to explore possible long-term concession projects in line with the strategic direction that the Board has mapped out since 2017, tapping on his own business network as well as the business networks of members of the Board including Mr Wang Zhi, Non-Executive Director and Head of the Investment Committee constituted by the Board. In this regard, the Management has been working closely with the Investment Committee.

Why the Acquisition?

In line with the strategic direction mentioned above and at the recommendation of the Investment Committee, the Management took a closer look at the Project, its suitability as a long-term concession project for the Group and the preliminary financial numbers as well as expected valuation of the Project that were presented by the vendor to the Acquisition, Emsus Co. Ltd. ("Emsus"). The Management proceeded to table the Acquisition and the Project to the Board for consideration, after taking into consideration that the Acquisition is subject to certain conditions subsequent and the Company's right to the Reversal Option (as described in the Company's announcement dated 4 November 2019).

In approving the entry by the Company into the Acquisition, the Board had taken into consideration, among others, the nature of the Project being a long-term concession project that could provide a steady stream of revenue if successfully commissioned, the ability to mitigate further the country risks of the Group and the Acquisition being subject to final due diligence and feasibility studies with the right of the Company to exercise the Reversal Option to exit the Project and unwind the Acquisition as the Board deems fit.

The Board notes that the recent articles published by the Business Times (including the 26 June BT Article) had appeared to suggest that the Project has been problematic and a burden on the Company and that it had been pushed for by Mr Wang Zhi to relieve himself of a project in which he had a personal interest and in respect of which he no longer wished to have. The Board would like to clarify as follows:

- As far as the Board is aware and after having made due enquiries, Mr Wang has had no personal interest in the Acquisition and the Project (whether at the time of entry by the

Company into the Acquisition or now) - other than through his shareholding interest in the Company. As such, the interests of the Company and Mr Wang in so far as the Acquisition and the Project are concerned have been aligned right from the start;

- The Project is a rare opportunity for the Group to secure a long-term concession project in a new territory that the Group has not had any presence. With no long-term concession projects under its belt, the Group would score a decisive win if it were to secure the Project (subject to the terms being right and the Project being feasible and earnings accretive, of course) as it would give the Group a stable stream of revenue as well as help establish the right credentials and track record for the Group to bid for more concession projects of similar nature in Indonesia and other countries in Asia. If successful, it would be strategic for the expansion and growth of the Group.
- Whilst there had been differences in opinion among certain Board members on the appropriateness for the Company to undertake the Acquisition (such differences being natural as part of the Board's deliberation and debate on entry into a transaction by the Company, the majority of the Board had then determined that the Management should proceed with the Acquisition with the necessary safeguards as the Project, if successful, would transform the Group and establish for the Group a new business segment. If carefully managed, the Board believes that the Project, which has built-in downside protection from the manner the Acquisition is structured, could be financially rewarding for the Group.
- In terms of the decision of the Company to continue to explore ways to make the Project viable notwithstanding the current position taken by the West Java Government as regard the re-negotiations that JBL has requested for in respect of the Nambo Cooperation Agreement and as previously announced, the Board has deliberated on and weighed the pros and cons of choosing to exercise the Reversal Option immediately, on the one hand, against choosing to work with the West Java Government with the goal of securing improved terms and conditions for the Project and remains of the view that it would be in the interest of the Company to give another shot at making the Project work. The Company has requested Emsus, as its business partner, to reach out to the West Java Government with a view to finding a mutually beneficial and workable solution to the issues currently surrounding the Project.
- As disclosed in the Company's various announcements, Mr Wang Zhi has offered to pay for costs and expenses incurred by the Company in excess of S\$100,000 and to take over the Project from the Company in the event that the Board is not satisfied with the findings of the due diligence and feasibility studies undertaken by the Company on the Project and opt to exercise the Reversal Option. The Board would like to state that Mr Wang Zhi has no obligation to make such an offer and has done so gratuitously and purely as a gesture of goodwill as well as to demonstrate his personal belief that the Acquisition and Project would be beneficial and positive for the Group's development and growth.

3. CONCERNS RAISED BY CERTAIN SHAREHOLDERS ON THE ABORTED PLACEMENT IN EARLY JANUARY 2020

The Placement announced in Early January 2020

It appears that certain Shareholders continue to have doubts on the reason for the Company's decision not to proceed with the placement that was originally announced in early January 2020. The Board would like to state, for the avoidance of any further doubt, the following:

- The placement agreement which was entered into between the Company and the placees provided that the closing of the placement must take place no later than 25 March 2020 (the "**Long-Stop Date**").
- Unfortunately, the conditions precedents as set out in the Agreement have not yet been satisfied as at Long-Stop Date, resulting in the Company having to abort the placement unless the placees agreed to extend the Long-Stop Date. Regretfully, the placees had then decided to call off the placement as market instability caused by COVID-19 concerns had started to appear. It was determined by the placees that it was no longer justifiable for them to subscribe for the placement shares at the issue price of S\$0.35 per share.
- The Company had also received advice from its legal counsel that the Company had no basis to unilaterally impose an extension of the Long-Stop Date and would have no choice but to allow the placement to lapse.

It is therefore incorrect to characterize the Company's action of terminating the placement as one that was "eventually called off in March after protests from minority shareholders".

Qarah Consultancy Pte. Ltd.

The Board notes that the 26 June BT Article had continued to highlight the link between Ms. Joanna Ong, an Independent Director, and Qarah Consultancy Pte. Ltd. ("**Qarah Consultancy**") as well as suggested that certain alleged unlawful trading activities were connected with Qarah Consultancy and, in turn, Ms. Ong. In response to the BT Article, Ms. Ong has reiterated that she has had no knowledge of any of those trading activities (alleged by certain Shareholder as unlawful). With regards to Qarah Consultancy and Ms. Ong, please refer to the Company previous Announcement which had been already made.

4. RIFT AMONG SHAREHOLDERS

In its concluding paragraph, the 26 June BT Article stated that “voting patterns at Darco's AGM on Friday suggest a rift among its shareholders”, presumably judging from the fact that “Mr. Wang Zhi, Ms. Joanna Ong and Mr. Wang Yaoyu were each re-elected by a 71.04 per cent majority, with 28.96 per cent of shares voted against them”.

The Board is of the view that each Shareholder is fully entitled to cast his/its votes in accordance with how such Shareholder determines as most appropriate (including taking into consideration his/its personal preference). The Board respects the votes of each Shareholder and accepts that there would be differences in opinion among Shareholders. As such, the Board does not necessarily view the fact that 28.89 percent of the votes were cast against the re-appointment of the three Directors as suggesting a rift among Shareholders.

5. EXERCISE OF CAUTION ADVISED

The Company will make further announcements as and when there are material developments in relation to the affairs and businesses of the Group. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company and, when in doubt, are advised to consult with their own legal advisors, financial advisors, stockbrokers, bank managers and/or other professional advisors.

BY ORDER OF THE BOARD

Poh Kok Hong
Executive Director and Chief Executive Officer

29 June 2020