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

RESPONSES TO SINGAPORE EXCHANGE SECURITIES TRADING LIMITED'S QUERIES ON THE COMPANY'S ANNOUNCEMENT AND UPDATE ANNOUNCEMENT – PROPOSED ACQUISITION OF 75% OF THE TOTAL ISSUED AND PAID-UP SHARE CAPITAL OF PT PANGHEGAR ENERGY INDONESIA

1. INTRODUCTION

The Board of Directors (the “**Directors**” or the “**Board**”) of Darco Water Technologies Limited (the “**Company**” and together with its subsidiaries, collectively, the “**Group**”) refers to the Company’s announcement on the proposed acquisition of 75% of the total issued and paid-up share capital of PT Panghegar Energy Indonesia (the “**Target**”) released on the SGXNET on 4 November 2019 (the “**Previous Announcement**”).

Unless otherwise defined herein, capitalised terms shall have the meaning ascribed to them in the Previous Announcement.

2. RESPONSES TO SGX QUERIES

The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 6 November 2019 and 8 November 2019 (each, an “**SGX Query**”) as follows:

SGX Query (a):

We refer to the announcement issued by the Company on 4 November 2019 entitled “Proposed acquisition of 75% of the total issued and paid-up share capital of PT Panghegar Energy Indonesia”. Please disclose (i) information on Yunnan Water (Hong Kong) Company Limited; and (ii) the background profile of the escrow agent, Dharma Legal, and the factors considered by the Company in selecting the escrow agent.

Company’s response to SGX Query (a):

(i) Information on Yunnan Water (Hong Kong) Company Limited

Yunnan Water (Hong Kong) Company Limited (“**Yunnan**”) is a wholly-owned subsidiary of Yunnan Water Investment Company Limited, a state-owned enterprise set up with the approval of the Yunnan provincial government and listed on the Hong Kong Stock Exchange.

By way of further background, as at the date of the CSPA, Yunnan continues to hold a share pledge over the Sale Shares and Yunnan has agreed to the release of the share pledge to facilitate the transfer of the Sale Shares to the Company only upon assurance of the payment of US\$400,000 to it. Accordingly, as a commercial compromise, it was agreed that the US\$400,000 payable as the First Payment is to be paid to and held on escrow by the escrow agent pending the completion of the transfer of the Sale Shares to the Company free of any encumbrances.

(ii) Information on Darma Legal

Darma Legal is an Indonesian law firm established in 2007 with expertise in providing advice on corporate matters. Darma Legal's clients include domestic and foreign corporations that comprise listed companies, state-owned enterprises, as well as small and medium enterprises. Darma Legal is acting as legal counsel to Yunnan in connection with the transaction at hand.

The Management notes that it is not out of the ordinary in a transaction of such nature for one of the law firms involved in the transaction to be appointed as an escrow agent to hold purchase monies on escrow pending completion of the transfer formalities. Pursuant to commercial negotiations between the Company and the Seller, and in consideration of the condition laid down by Yunnan that the arrangement must ensure that the sum of US\$400,000 must be paid upon successful transfer of the Sale Shares, Darma Legal has been appointed as the escrow agent by the parties. The Management further notes that as the process involving the transfer of the Sale Shares to the Company is largely procedural, the condition laid down by Yunnan to have the US\$400,000 escrowed with its legal counsel before it releases and discharge the share pledge over the Sale Shares in full is not unreasonable.

SGX Query (b):

It is stated that, "The Second Payment shall be treated as a shareholders' loan from the Seller to the Target" and "The Final Payment shall also be treated as a shareholders' loan from the Seller to the Target". Please disclose (i) the rationale of these arrangements; (ii) the terms of shareholders' loan relating to the Second Payment and Final Payment of US\$600,000 and US\$200,000 respectively; and (iii) whether the Board considers the arrangements to be in the best interest of the Company, and its basis of assessment.

Company's response to SGX Query (b):

(i) Rationale of the arrangements

In the course of the negotiations on the terms and conditions applicable to the purchase of the Sale Shares, the Company included as a condition that the Seller, which will be retaining a 10% shareholding interest in the Target, has to ensure that a reasonable amount of funds must be immediately available to meet the on-going working capital and other funding requirements of the Target and/or its subsidiary. This is to avoid the Company having to extend further funding to the Target immediately after the purchase of the Sale Shares is completed. As such, following the final negotiations between the Company and the Seller, it has been agreed that the proceeds arising from the Second Payment and the Final Payment should be first made available to the

Target to meet its immediate funding requirements. Accordingly, the treatment of the Second Payment and the Final Payment as shareholders' loans from the Seller as a shareholder of the Target was as a result of such commercial agreement reached.

(ii) Terms of the Shareholders' Loans

The shareholders' loans arising from the Second Payment and the Final Payment are to be made by the Seller on an interest-free basis and repayable within 6 months of disbursement unless extended by mutual agreement of the Company and the Seller.

(iii) Whether the Board considers the arrangements to be in the best interests of the Company

In light of the rationale for the shareholders' loans required to be extended by the Seller and the interest-free basis on which such loans are to be granted, the Board considers the arrangements to be in the best interests of the Company. In coming to such a conclusion, the Board has also taken into consideration the fact that the immediate funding requirements of the Target are taken care of without any additional funding required from the Company.

SGX Query (c):

It is disclosed under "Conditions Subsequent" that the Company shall, no later than four (4) months from Closing, enter into a loan agreement to grant a loan to the other shareholders of the Target on terms and conditions to be agreed upon by the Purchaser and the other shareholders of the Target. Please disclose (i) the quantum and terms of the loan; (ii) whether the loan agreement is in the ordinary course of business; (iii) the Company's rationale for entering into the loan agreement; and (iv) whether shareholders' approval will be sought.

Company's response to SGX Query (c):

(i) Quantum and terms

The quantum and terms of the loan have not been agreed as of the date hereof as the parties are still in the midst of discussing such terms. In any case, whilst such condition subsequent (to extend a loan to the other shareholders of the Target) has been included as part of the transaction terms, no loan is immediately contemplated and no loan quantum is determinable at this juncture for the following reasons:

- (a) additional funding (as well as the amount required) for the business and operations of the Target Group is dependent on the extent of the exploitation of the 25-year concession granted to the Target's subsidiary, JBL, to provide, amongst others, the planning, development, design and operation of waste management and treatment infrastructure that will be used to treat waste supplied from areas in Bogor City, Bogor Regency and Depok City (the "**Concession**"). The aforesaid is a subject-matter that would be discussed in greater detail after the Company has completed its purchase of the Sale Shares. Please see paragraph (iii) below for more details;
- (b) the purchase of the Sale Shares by the Company is subject to the Company completing its legal, financial, business and commercial due diligence on the Target Group as well as the results of such due diligence being satisfactory to the Company. The Target will also need to



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undertake the appropriate feasibility studies on the Concession and its exploitation. In the course of the aforesaid due diligence, the Company will be able to better assess the viability of the intended business and operations of the Target Group, as well as determine the extent of that JBL should exploit the Concession. The amount of additional funding required can only be properly determined after completion of the relevant feasibility studies.

Shareholders' approvals will be obtained, as necessary or required, before the Company further commits to any participation in the business and operations of JBL that require significant funding from the Target (and, in turn, from the Company as one of the shareholders).

(ii) Whether the loan is in the ordinary course of business

Whilst the loan to be extended to the other shareholders of the Target cannot be regarded as in the ordinary course of business, the Company wishes to note that it is an arrangement that forms part of the negotiated commercial deal concluded with the Seller.

The Company would like to reassure Shareholders that the terms of the loan, if to be extended, will be on terms and conditions in line with or comparable to market norms and that such loan will be charged with interest at an interest rate that is at a premium to the Company's cost of funds.

(iii) Rationale

By way of background, the Company wishes to note as follows:

- (a) The entry by the Company into the Proposed Acquisition (via the purchase of the Sale Shares which constitute a 75% stake in the Target) is to acquire a significant and controlling interest in the 80% stake held by the Target in JBL, which in turn has rights to the Concession (as more particularly described below).
- (b) Under the Cooperation Agreement entered into with the West Java Province Regional Government, JBL has been granted the Concession – specifically, a 25-year concession to provide, amongst others, the planning, development, design and operation of waste management and treatment infrastructure that will be used to treat waste supplied from areas in Bogor City, Bogor Regency and Depok City. The Concession can be exploited by JBL either immediately or at a later point in time.
- (c) JBL is currently in discussion with the West Java Province Regional Government on the proposed commencement of works under the Concession involving the collection of waste from one or more of the specified cities, such waste to be dumped in an existing landfill which JBL already has possession of. The collection of waste as aforesaid (“**Waste Collection**”) entitles JBL to charge a fee, the rate of which is under negotiation with the Regional Government.
- (d) It is envisaged that JBL may require additional working capital if it were to commence the Waste Collection. Such additional working capital, part of which will be deployed to prepare the landfill for the Waste Collection works, is not expected to be significant, currently estimated to be no more than US\$ 350,000.00

(iv) Shareholders' Approval

Under the terms of the Agreement, the total investment amount committed by the Company for the Proposed Acquisition is limited to US\$1.5 million. On the basis of this total investment amount and for the purposes of Chapter 10 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Proposed Acquisition is not subject to the grant of approval by the Shareholders. Where, following the completion of due diligence and the relevant feasibility studies (re: the exploitation of the Concession), the Company assesses that it would be in the best interest of the Company and the Shareholders as a whole to make further investments in the Target and/or the business and operations of JBL to further exploit the Concession, the Company will seek the requisite approvals of the Shareholders as may be required.

SGX Query (d):

Please disclose the total estimated investment amount for the Project and how this investment will be funded.

Company's response to SGX Query (d):

The total committed investment amount for the Company is US\$1.5 million, being the Consideration for the Proposed Acquisition. Based on indicative figures provided by the Seller to the Company, the Seller estimates the preliminary indicative size of the further exploitation of the Concession to be US\$46 million. The Company notes that this indicative figure was provided to the Company by the Seller and the Company has yet to perform its own independent due diligence to verify this figure. In addition, as described above in the Company's response to SGX Query (c), any further participation in the Project will be subject to feasibility studies, satisfactory due diligence and the Company's assessment whether it is desirable for the Company to make any such further investments. The Company would like to emphasise that the Company's total committed investment amount remains at US\$1.5 million, and there is no obligation on or commitment by the Company to further participate in the Project or increase its investment amount. Insofar as the Company decides to further participate in the Project or increase its investment amount, the Company will seek the requisite approval of the Shareholders as may be required. In the event the Company decides not to further invest or participate in the concession project for any reason, it is open to the Company to dispose of its indirect interest in such concession through a sale of its interest in the Target for valuable consideration, subject to market demand at the relevant time

SGX Query (e):

Please disclose if the Target can fulfil its short term obligations within the next 12 months, excluding shareholders' loans relating to the Second Payment and Final Payment.

Company's response to SGX Query (e):

The Target will not be able to fulfil its short term obligations within the next 12 months excluding shareholders' loans relating to the Second Payment and the Final Payment.

SGX Query (f):

Please provide the salient details of the “cooperation agreement” and details of JBL’s principal activities.

Company’s response to SGX Query (f):

Please refer to the response to paragraph (iii) of SGX Query (c) for the salient details of the Cooperation Agreement entered into by JBL with the West Java Province Regional Government. Apart from the Project, JBL has no other principal business activities.

SGX Query (g):

Please provide the Board’s opinion as to whether the businesses of the Target Group including and not limited to the cooperation agreement are in the Group’s ordinary course of business and the bases for the Board’s opinion.

Company’s response to SGX Query (g):

The Board is of the opinion that the business of the Target Group are, strictly speaking, not within the Group’s current ordinary course of business though the nature of the Target Group’s intended business and operations are within the same broader industry sector involving environment-related businesses. The Board is of the opinion that the Company is in a position to develop and expand into the type of business and operations proposed to be undertaken by the Target Group with additional support and expertise. In this regard, Dr Do Dun Yu, the sole director and shareholder of the Seller, has the expertise and is expected to continue to provide his support and expertise to the Target Group. Insofar as the Company decides to further participate in the Project or increase its investment amount, the Company will seek the requisite approval of the Shareholders for the diversification of the Group’s business as may be required.

3. FURTHER UPDATES ON THE PROPOSED ACQUISITION OF 75% OF THE TOTAL ISSUED AND PAID-UP SHARE CAPITAL OF PT PANGHEGAR ENERGY INDONESIA

The Board would like to further update Shareholders that Mr. Wang Zhi (“**Mr. Wang**”), a controlling shareholder and Non-Executive Director of the Company, who has recommended that the Company consider the Proposed Acquisition and who believes that the Proposed Acquisition presents a unique opportunity for the Company to expand into waste management business, has offered to provide support to the Company as follows:

- (i) In the event, for any reason whatsoever, the Company declines, elects not to or otherwise is unable to proceed with and/or complete the Proposed Acquisition, Mr. Wang will reimburse the Company in full any and all of the costs, including but not limited to the incurring of costs and expenses to undertake business, financial, legal and technical due



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diligence and feasibility studies, as well as to negotiate and finalise the transaction documents, incurred and paid for by the Company in excess of the initial S\$100,000.

- (ii) Except as prohibited or restricted by applicable laws, Mr. Wang shall, in relation to the Proposed Acquisition and any other matters in relation to the Proposed Acquisition, vote, or procure the voting of, all of the ordinary shares of the Company held by him or to his order at the relevant time solely and strictly in accordance with the recommendations of the Board. If requested by the Board, Mr. Wang Zhi will not participate or exercise any influence in the deliberation and decision-making of the Board in so far as the Proposed Acquisition is concerned.
- (iii) Mr. Wang has further agreed in-principle to provide or procure additional funding of up to S\$2 million by way of a shareholder's loan, the proceeds of such loan to be primarily for the Company's general working capital. In this regard, Mr. Wang has made an advancement of S\$1 million on an interest-free basis to the Company pending the finalisation of the terms of the aforesaid shareholder's loan. The Company will update Shareholders via further announcement(s) as and when there are further material development.

BY ORDER OF THE BOARD

Poh Kok Hong
Executive Director and Chief Executive Officer

11 November 2019