



**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 COMPANY'S ANNOUNCEMENT – UPDATE ON THE ASSET INJECTION AND  
EXTENSION OF DEADLINE**

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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 update on the asset injection and extension of deadline released on the SGXNET 9 September 2019. The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 12 September 2019 (each, an "**SGX Query**") as follows:

**SGX Query 1:**

It is disclosed that "Pursuant to the LOI, the Company (or its subsidiary) has paid to Wang Zhi a sum of Renminbi 6,000,000 as deposit (the "**Deposit**")." Please disclose the Company's rationale for paying the deposit as well as the Board's considerations in this regard.

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

The payment of the Deposit was required by Wang Zhi as a demonstration of the Company's commitment to seriously explore the feasibility of taking on the Gaoyi Project, especially since Wang Zhi has agreed to set aside the Gaoyi Project for the Company. The Company would like to emphasise that the Deposit is fully refundable should the Company for any reason decide not to proceed with the Gaoyi Project.

Strategically, the Company would like to strengthen its earning profile and invest in a BOT project that would generate recurring stable income stream. Gaoyi Project as recommended by Wang Zhi was identified as such a strategic asset. The Management team at that time had recommended to proceed with the feasibility study given that the deposit is refundable. The Board at that time, having taken into consideration various factors including the project potential, funding capabilities and resources of the Company had agreed to proceed with the LOI and the required refundable deposit.

Management would like to note that the Board had been made fully aware of the Deposit as it was an express provision in the final draft of the LOI circulated to the Board for approval. The Board had then raised no objections to the terms of the LOI and the Deposit.

**SGX Query 2:**

It is disclosed that "As previously announced in the Press Release, the total consideration for the proposed investment of 100% equity interest in the Gaoyi Project is RMB 60.0 million." Please disclose the Company's basis of the purchase consideration of RMB60M.

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

The purchase consideration of RMB 60 million is only a ballpark indicative amount provided by Wang Zhi for inclusion into the LOI. This amount was accepted by the Company as a



starting point for negotiations especially after taking into consideration the projected cash flow of the Gaoyi Project over the next 30 years.

The Company would like to clarify that this amount of RMB 60 million has not been finalised and is subject to further due diligence as well as benchmarking against valuation by the Company and an independent 3<sup>rd</sup> party valuer before both parties proceed to further negotiation to finalise the purchase consideration.

### **SGX Query 3:**

Please disclose (i) the difference between the conditions in the Supplemental Agreements and the Deed of undertaking; (ii) whether the Board considers the amendments to the conditions for asset injection to be material, and its basis of assessment; and (iii) Board's assessment as to whether shareholders' approval is required for the amendments to conditions for asset injection.

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

- (i) There are 2 differences between the conditions in the Supplemental Agreements and the Deed of Undertaking, namely:
  - (1) the extension of the deadline for the Asset Injection from 23 March 2020 to 23 March 2022; and
  - (2) the value of the Water Treatment Asset to be injected has been reduced from a value of not less than RMB 80 million to a value of RMB 60 million or lower,

subject to the Company's funding capabilities and financial resources.

By way of further background:

- (a) At the time of the signing of the Deed of Undertaking, the commitment from Wang Zhi was to introduce or offer to the Company a Water Treatment Asset with an asset value of not less than RMB 80 million coupled with an internal rate of return (**IRR**) of not less than 12%. At that point of time, the Gaoyi Project has not been introduced or put forward to the Company for consideration. In fact, no specific project was presented to the Company during the Placement.
- (b) The Gaoyi Project was brought to the attention of the Company a few months following the signing of the Deed of Undertaking, whereupon the LOI was entered into. Whilst the Gaoyi Project was identified as a possible Water Treatment Asset for the purposes of fulfilling Wang Zhi's obligations under the Deed of Undertaking, the Board then was made aware that the asset value of the Gaoyi Project would likely to be in the region of RMB 60 million (as opposed to RMB 80 Million). After taking into consideration the funding capabilities and financial resources of the Company at that time as well as the Company's readiness to take on projects, the Board accepted the Gaoyi Project as a possible Water Treatment Asset referred to in the Deed of Undertaking even though it had a value of around RMB 60 million.

In light of above, the Supplemental Agreements did no more than to extend the timeline for the completion of the injection of a Water Treatment Asset (currently identified as



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the Gaoyi Project) for reasons stated below and to confirm in writing that the Company is considering the Asset Injection of a Water Treatment Asset with an asset value of about RMB 60 million (as per the LOI entered into in relation to the Gaoyi Project).

- (ii) As stated in paragraph (i) above, there are only 2 key differences, being (a) the extension of the timeline for the Asset Injection, and (b) the value of the Water Treatment Asset.

In coming to a decision on the changes, the Board is of the view that such amendments are not necessarily adverse to the interests of the Group as the extension of the timeline and the taking on of a Water Treatment Asset that has a lower asset value are both advisable given the Group's financial and other available resources. In particular, the extension of the timeline is necessary in view of the following:

- As set out in the Company's announcement dated 9 September 2019, the Group intends to execute certain projects in Vietnam and would need to allocate its financial and other resources to such projects as a matter of priority. The extension of the timeline to complete the Asset Injection would allow the Company more flexibility and room to consider further fund raising plans, if necessary. As mutually agreed between the parties, the value of the Water Treatment Asset has also been reduced so as to factor in the Company's financial position and funding capabilities.
  - In addition, the Company has only recently been informed that the refurbishment of the Gaoyi Plant has been completed (i.e., in the first half of September 2019). After such refurbishment, it would take approximately 40 to 50 days in order for the plant to be able to operate at full capacity. Technical due diligence by the Company should only commence after the plant's operations have achieved full capacity, and such technical due diligence would require between 90 days and 120 days to complete. Hence, realistically, technical due diligence is likely to be completed only in the second half of 2020. After technical due diligence has been completed, the Company would then have to commission a valuation of the Gaoyi Project and complete its legal, financial, environmental and business due diligence. All the aforesaid (which would require substantial amount of time) is likely to complete only sometime end 2020 or early 2021. The Company has buffered the remaining time to for the purposes of raising funds necessary for the purchase of the equity interest in the Gaoyi Project.
- (iii) The Board has obtained specific legal advice from two legal firms on the matter and is of the view that shareholders' approval is not required for the Supplemental Agreements for the following reasons:-
1. Pursuant to the Listing Rules, shareholders' approval is primarily required (i) pursuant to Chapter 10 of the Listing Rules where the Company acquires an asset and the relative figures computed on the bases set out in Rule 1006 exceeds 20%; and (ii) pursuant to Chapter 9 of the Listing Rules where the Company enters into "*transactions*" with an "*interested person*" that may adversely affect the interests of the Company or its subsidiaries.



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Accordingly, whether or not shareholders' approval is required will depend on whether the entry into the Supplemental Agreements fall under any of the foregoing categories.

2. In respect of Chapter 10 of the Listing Rules, the entry into the Supplemental Agreements does not relate to a "*transaction*" for the purposes of Chapter 10 (i.e. an acquisition or disposal). The Supplemental Agreements instead relate to the amendments to certain conditions in connection with the obligation by Wang Zhi to facilitate the injection of a Water Treatment Asset into the Group. As the Supplemental Agreements do not actually relate to the acquisition or disposal of an asset, Chapter 10 of the Listing Rules does not apply.

Please note that the Company will need to enter into separate documentation and definitive agreements in respect of the actual acquisition of the Water Treatment Asset. If the Asset Injection takes place, the Company will seek the requisite shareholders' approval as may be required under the Listing Rules.

3. In respect of Chapter 9 of the Listing Rules, the Board is of the view that no shareholders' approval is required in connection with the entry into the Supplemental Agreements due to the following reasons: -

- (a) The Supplemental Agreements relate to the Placement Agreement and Deed of Undertaking which were both entered into by Wang Zhi at a time when he was not a controlling shareholder or director of the Company, and therefore not an "*interested person*" for the purposes of Chapter 9 of the Listing Rules.

The substance of the Supplemental Agreement relates to an extension of a deadline and amendment to the value of the Water Treatment Asset and does not *per se* fall within the categories of "*transaction*" under Chapter 9 of the Listing Rules. Accordingly, Chapter 9 of the Listing Rules does not apply in respect of the Supplemental Agreements.

In any event, if the Asset Injection takes place, the Company will seek the requisite Shareholders' approval as may be required under Chapter 9 of the Listing Rules.

- (b) Even if the alternative view is adopted (i.e. that the entry into the Supplemental Agreements constitute an "*interested person transaction*" for purposes of Chapter 9), the Company's entry into the Supplemental Agreements is not prejudicial to the interests of the Group or its minority shareholders as the extension of the deadline and the reduction in the asset value were both necessary due to (i) the Group's current business plans (which have changed since the Deed of Undertaking was first entered into), and (ii) limited financial resources available to the Group.

In addition, it is pertinent to note that if the Supplemental Agreements had not been entered into, the Asset Injection would likely have been aborted as the Board would be unlikely to have approved the Company's investment in the Water Treatment Asset, taking into consideration the Group's existing business plans and availability of financial resources. Pursuant to the Deed of Undertaking, the recourse that would then be available to the Company would be limited to the payment of the compensation sum



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of S\$2 million by Wang Zhi and the Company would have lost an opportunity to acquire an asset as part of the Group's expansion plans. However, as Wang Zhi has more than 15 years of experience in the business of water and wastewater treatments and water supply, the Company sees the potential strategic value in an Asset Injection by Wang Zhi to the Group's expansion plans and future business. As such, instead of entirely giving up on the Asset Injection, the Board is of the view that it would be in the commercial interests of the Group to amend the conditions to the Asset Injection so as to give the Company more time to pool and/or plan for its financial resources, evaluate the feasibility of the Gaoyi Project and, at the same time, undertake other projects that can still contribute to the expansion plans of the Group.

In any event, if the Asset Injection takes place, the Company will seek the requisite Shareholders' approval as may be required under the relevant Listing Rules.

### **SGX Query 4:**

It is disclosed that "Wang Zhi shall pay a compensation sum of S\$2,000,000 to the Company by way of telegraphic transfer or cashier's order within 5 Business Days of the Extended Deadline or from the date on which the Company delivers the AWTA Notice of Rejection to Wang Zhi (as the case may be)." Please disclose the Company's rationale for not seeking compensation of \$2m by 23 March 2020, as well as the Board's considerations in this regard.

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

The Management together with the Board have considered whether to seek the S\$2 million compensation by 23 March 2020 and had decided that, instead of seeking the S\$2 million compensation at an earlier date, the commitment, goodwill and support of Wang Zhi to support the Company with new projects is of greater importance, strategic value and commercial benefit to the Company in the longer term. While the compensation of S\$2 million will represent immediate cash, in the longer term, the Company will stand to reap greater benefits from having recurring income through investment via this BOT model, and the Board is of the view that the Company should continue to work closely with Wang Zhi to acquire earnings accretive businesses to enhance shareholder value. Furthermore, as a controlling shareholder of the Company, Wang Zhi's interest is, in any case, aligned with the other shareholders.

The Company would also like to reiterate that the Company is not giving up its right to the S\$2m compensation, but is only deferring this payment to give the Company more time to evaluate the viability of the Gaoyi Project or any other projects that Wang Zhi may bring to the table for the purposes of the Group's expansion and business plans.

In any event, the Company would like to reassure that any other projects undertaken by the Company will be subject to independent shareholders' approval, as necessary.

### **By Order of the Board**

Poh Kok Hong  
Chief Executive Officer  
17 September 2019