



DARCO WATER TECHNOLOGIES LIMITED

(Incorporated in the Republic of Singapore)

(Company Registration No. 200106732C)

RESPONSES TO SINGAPORE EXCHANGE SECURITIES TRADING LIMITED'S QUERIES IN RELATION TO THE COMPANY'S ANNOUNCEMENT DATED 25 JUNE 2020 SETTING OUT THE COMPANY'S RESPONSES TO QUESTIONS RECEIVED FROM SHAREHOLDERS IN CONNECTION WITH THE ANNUAL GENERAL MEETING (AGM) HELD ON 26 JUNE 2020

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 Company's response to the questions received from shareholders of the Company ("**Shareholders**") that were relevant to the resolutions proposed to be passed at the annual general meeting of the Company ("**AGM**") held on 26 June 2020 and to the business of the Company, released on the SGXNET on 25 June 2020 (the "**Previous Announcement**").

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

2. RESPONSES TO QUERIES FROM THE SINGAPORE EXCHANGE

The Board would like to respond to the following queries relating to the Previous Announcement raised by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") as follows:

SGX Query (a):

With regard to response 1(a), we note that the Company stated in its SGXNet announcement dated 13 January 2020 that "[the] placees are not related to the Group, and none of the Directors, the Company's controlling shareholders and/or their respective associates are connected with the Placees, and none of the Company's directors or substantial shareholders have, have, to the best of the Company's knowledge, any connection (including business relationship) with any of the Placees and, in the case of Yunnan Sidu Investment Company Co., Ltd., its sole director and shareholder".

Please confirm whether Mr Wang Zhi had any involvement in the placement process and provide details of the background of how Yunnan Sidu was identified and procured by the Introducer as one of the Placees for the proposed placement.

Company's response to SGX Query (a):

The Company has reached out to Mr Wang Zhi for certain confirmation and information required to respond to SGX Query (a). The Company will, as soon as practicable after receiving such confirmation and information, issue a further announcement to provide its response to SGX Query (a).

SGX Query (b):

With regard to response 2(c), we note that the Company stated in its SGXNet announcement dated 4 November 2019, entitled "Responses to Singapore Exchange Securities Trading Limited's queries on the Company's announcement – entry into a non-binding letter of intent with Emsus Co. Ltd." that "[this] deal came through a lead from the Company's controlling shareholder, Wang Zhi".

Please elaborate on how Mr Wang Zhi became aware of the deal and disclose his past transactions with Yunnan Water Investment Company Limited and its subsidiaries and associated companies, including Yunnan Water International Limited.

Company's response to SGX Query (b):

Similar to SGX Query (a), the Company has reached out to Mr Wang Zhi for certain confirmation and information required to respond to SGX Query (b). The Company will, as soon as practicable after receiving such confirmation and information, issue a further announcement to provide its response to SGX Query (b).

SGX Query (c):

We refer to the Company's announcement of 11 November 2019 entitled "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".

It is stated that "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."

Please disclose: (i) the background of Yunnan Water (Hong Kong) Company Limited holding the share pledge; (ii) the relationship between Yunnan Water (Hong Kong) Company Limited and the Target & Seller in PT Panghegar Energy Indonesia; (iii) the due diligence conducted by the Board on the proposed acquisition of 75% of the total issued and paid-up share capital of PT Panghegar Energy Indonesia.

Taking into consideration the responses to the questions and that “Mr Wang Zhi has previously given the Company an undertaking in writing to reimburse the Costs. Mr Wang Zhi has also, as a gesture of goodwill, offered to take over the project should the Company elect not to proceed with the Proposed Acquisition”, please provide us with the Audit Committee’s assessment and bases for its assessment as to whether Mr Wang Zhi should abstain from deliberations and decisions on the project, including whether or not to exercise the Reversal Option.

Company’s response to SGX Query (c):

(i) Background of Yunnan Water (Hong Kong) Company Limited holding the share pledge

In response to further enquiry, Emsus Co. Ltd. (the “**Seller**”) has informed the Company as follows: In December 2018, JBL had received the Stipulated Letter of Effective Date of the Cooperation Agreement from the West Java Government based on a financing commitment from Yunnan Water (Hong Kong) Company Limited (“**Yunnan Water (Hong Kong)**”). However, the proposed injection of funds from Yunnan Water (Hong Kong) into JBL was delayed due to a new policy that required Yunnan Water (Hong Kong) to obtain government approval for overseas investments. Subsequently, in or about May 2019, the available funds for working capital of JBL had run out. Hence, Yunnan Water proceeded to inject US\$400,000 into JBL in exchange for a share pledge over the Seller’s shares.

(ii) Relationship between Yunnan Water (Hong Kong) Company Limited and the Target and Seller in PT Panghegar Energy Indonesia

In response to further enquiry, the Seller has informed the Company as follows: (a) the Seller has no relationship with Yunnan Water (Hong Kong) other than the Seller being the then proposed vendor of shares to Yunnan Water (Hong Kong); and (b) the Seller and Yunnan Water (Hong Kong) had met while the Seller was searching for a strategic investor in the Nambo Project on or about March 2018.

(iii) Due diligence conducted by the Board on the proposed acquisition of 75% of the total issued and paid-up share capital of PT Panghegar Energy Indonesia (“**75% PEI Shares**”)

Prior to the signing of the CSPA, the Management of the Company undertook a preliminary review of the documents and materials made available to the Company by the vendor of the 75% PEI Shares, which documents and materials include but not limited to the financial statements of PT Panghegar Energy Indonesia (“**PEI**”), the Nambo Cooperation Agreement and the corporate documents relating to PEI, the project company and the Nambo Project.

Following the signing of the CSPA, the Company engaged the following professional parties to assist with the due diligence:

- (a) Mazars Consulting Asia Pte Ltd, who performed financial and tax due diligence on PEI and JBL;
- (b) Darma Legal, who performed legal due diligence on PEI and JBL; and

- (c) Ramboll Environ Singapore Pte. Ltd., who performed technical and economical due diligence on, *inter alia*, the Nambo Project and the Nambo Cooperation Agreement.
- (iv) Audit Committee's assessment and bases for its assessment as to whether Mr Wang Zhi should abstain from deliberations and decisions on the project, including whether or not to exercise the Reversal Option

The Audit Committee has been informed by the Company that it has requested the Seller, as its business partner and owner of the balance 25% of PEI, to work closely with JBL to reach an acceptable solution with the West Java Government (in particular, to resolve the outstanding issues relating to the viability of the Project) within the next two weeks.

As regard whether Mr Wang Zhi should abstain from deliberations and decisions on the Nambo Project, after further discussions and taking into account the current circumstances surrounding the Nambo Project (including the uncertainty as to whether an acceptable solution could be achieved to ensure that the Nambo Project is viable), the Audit Committee has recommended to Mr Wang Zhi to consider abstaining from deliberations and decisions on the Nambo Project, including whether or not to exercise the Reversal Option. The Company is awaiting Mr Wang's response.

SGX Query (d):

With regard to response 3(a)(i), please provide: (i) details on the contracts (e.g. dates of entry, progress of the contracts, etc) and the losses incurred; and (ii) reasons for accepting a settlement which is lower than the original contract price. Please advise the actions taken by the Company to recover the outstanding sums.

Company's response to SGX Query (d):

- (i) Details on the contracts and the losses incurred
- (a) *In respect of the statement "one of our customers and the project owner have reached agreement on the final project claim, but the agreed settlement sum falls markedly short of the original contract price"*

The contract is in relation to the EPC wastewater project in Binhai, China. The details on the contract are as follows:

- The contract was entered into in July 2015.
- The contract value without VAT is RMB19.1 million.
- Subsequent to the final settlement agreed between our customer, who is the main contractor, and the project owner, our customer has claimed that certain agreed scope of work to be performed by us were not performed to satisfaction, and requested for a deduction from the contract price.
- As at 31 December 2019, the total project revenue and cost incurred for the project is RMB16.9 million and RMB14.0 million respectively.

- As at 31 December 2019, the trade receivables and WIP before impairment is RMB3.6 million and RMB1.9 million respectively. The Group has recognised impairment loss of RMB0.9 million and RMB1.9 million respectively for trade receivables and WIP for its financial year ended 31 December 2019.
- (b) *In respect of the statement “we have a project owner who is faced with difficulties that has rendered the project halted since 2017. To date, we have no visibility on the timing nor the possibility on the resumption of the project”.*

The contract is in relation to the EPC wastewater project in Medan, Indonesia. The details on the contract are as follows:

- The contract was entered into in April 2015.
 - The contract value without VAT is RMB4.2 million.
 - The execution of the project commenced in 2016. However, there has been no progress since 2017. In 2019, we were informed that the project owner faced difficulties which had resulted in the project being halted since 2017. To date, we have no visibility on the timing or the possibility of resumption of the project.
 - As at 31 December 2019, the total project revenue and cost incurred for the project is RMB3.9 million and RMB3.6 million respectively.
 - As at 31 December 2019, the trade receivables and WIP before impairment is RMB1.3 million and RMB2.3 million respectively. The trade receivables and WIP have been fully impaired for the Group’s financial year ended 31 December 2019.
- (c) *In respect of the statement “there is also a project that has stalled for a period of time and we further notice that the customer is in financial difficulties”.*

The contract is in relation to the EPC wastewater project in Guang Xi, China. The details on the contract are as follows:

- The contract was entered into in July 2015.
- The contract value is RMB55.6 million.
- Upon the signing of the EPC contract, a performance bond of RMB0.5 million had been paid in cash to the customer.
- The project has not started and the customer has encountered financial difficulties. Based on searches performed by us, the customer has several on-going legal cases whereby other suppliers have commenced legal action against the customer.
- As at 31 December 2019, the project had not commenced and full impairment had been provided for the performance bond of RMB0.5 million.

(ii) Reasons for accepting a settlement which is lower than the original contract price

In respect of the statement “one of our customers and the project owner have reached agreement on the final project claim, but the agreed settlement sum falls markedly short of the original contract price”

The Company would like to clarify that the agreed settlement referred to is between our customer (as the main contractor) and the project owner. For avoidance of doubt, the agreed settlement is not between Wuhan Kaidi Services Co., Ltd and the customer.

With regard to the settlement between Wuhan Kaidi Services Co., Ltd and the customer, we are currently still in negotiation with the customer on the final settlement amount, while taking into consideration the fact that the likelihood of recovering the full outstanding amount under the original contract price is low.

(iii) Actions taken by the Company to recover the outstanding sums

(a) *In respect of the statement “one of our customers and the project owner have reached agreement on the final project claim, but the agreed settlement sum falls markedly short of the original contract price”*

We are currently negotiating with the customer and we are contemplating commencing legal action against the customer in the event that the final settlement amount is unsatisfactory to us.

(b) *In respect of the statement “we have a project owner who is faced with difficulties that has rendered the project halted since 2017. To date, we have no visibility on the timing nor the possibility on the resumption of the project”.*

This customer is a longstanding customer whom we have been dealing with for the past few years. We have maintained a good relationship with this customer and there is currently still on-going business with this customer. Hence, we are treating this project as an isolated case whereby our customer is not the project owner, and merely the main contractor for the project, and we do not at present foresee commencing any legal action.

(c) *In respect of the statement “there is also a project that has stalled for a period of time and we further notice that the customer is in financial difficulties”.*

We have continued to send letters of demand to the customer, while noting that we reserve our rights on claiming legal action against the customer. Based on searches performed by us, the customer has several on-going legal cases whereby other suppliers have commenced legal action against the customer. Our searches have also shown the following:

(aa) the customer has been placed on the “untrustworthy list” (“失信名单”); and

(bb) based on a recent court decision on another separate case involving the customer, we note that the court found that the customer does not possess any enforceable assets for the courts to enforce payment.

In light of the above, we have taken the view to not commence any legal proceedings against the customer at this point in time. However, as explained above, we continue to reserve our rights to legal action against the customer.

SGX Query (e):

Please disclose the process for the selection, appointment and reappointment of directors to the Board, including the criteria used to identify and evaluate potential new directors and channels used in searching for appropriate candidates. Please also disclose if the Company has appointed a lead independent director in accordance with Provision 3.3 of the Code of Corporate Governance 2018.

Company's response to SGX Query (e):

In appointing directors to the Board, the Nominating Committee will consider candidates who are independent, possess the core competencies as set out in the Code of Corporate Governance 2018, how the candidates can add to or supplement the diversity of skills, experience, gender and knowledge of the current Board. Core competencies include accounting, finance, risk management, business or management experience, industry knowledge and strategic planning. The Nominating Committee will also assess the ability of each candidate to commit his or her time to the Company. For the avoidance of doubt, the Nominating Committee will consider applications received by the Company as well as recommendations received by the Company from professionals. As part of the due diligence performed by the Nominating Committee, the appointment process includes the following:

- (i) an interview by the Nominating Committee with the proposed director; and
- (ii) the commissioning of litigation searches and ACRA profile searches on the proposed director.

Following the retirement of Mr Tay Lee Chye Lester, the former lead independent director of the Company, the Company had made arrangements for the Nominating Committee to conduct interviews with potential candidates for appointment as an independent director to fill the vacancy left by Mr Tay. In compliance with Provision 3.3 of the Code of Corporate Governance 2018 and as announced by the Company on 3 July 2020, the Company has appointed Mr Sim Guan Seng as the lead independent director of the Company. Please refer to the said announcement for further details on Mr Sim and his appointment.

BY ORDER OF THE BOARD

Poh Kok Hong
Executive Director and Chief Executive Officer

3 July 2020