



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

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**ANNOUNCEMENT IN RELATION TO THE NOTICE OF COMPLIANCE  
ISSUED BY THE SINGAPORE EXCHANGE REGULATION ON 10 SEPTEMBER 2021**

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**1. INTRODUCTION**

The board of directors (the “**Board**” or “**Directors**”) of Darco Water Technologies Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) refers to the notice of compliance (the “**Notice**”) issued by the Singapore Exchange Regulation (the “**SGX RegCo**”) on 10 September 2021.

Pursuant to paragraph 3.3 of the Notice, the SGX RegCo has directed the Company to disclose via SGXNet a detailed report on the status of the proposed investment in the Gaoyi Project with inputs from its legal advisers by 17 September 2021, including but not limited to the following:

- (a) details of the current ownership structure in the Gaoyi Project. These should cover the respective shareholding interests of Mr. Wang Zhi, Huize, HKC and WDSY in the Gaoyi Project and the relationship between these parties;
- (b) details of the “Water Treatment Asset” that is contemplated to be transferred to the Company pursuant to the Deed of Undertaking as disclosed in the 5 November 2018 Announcement;
- (c) facts and circumstances surrounding the extension of deadline for the transfer of the Gaoyi Project or the “Water Treatment Asset” pursuant to the supplemental agreement, including the Board’s assessment and bases for the extension of deadline;
- (d) details of the legal recourse available to the Company under the Placement Agreement and Supplemental Agreement. These should include the recovery of the deposit of RMB6 million and potential compensation sum of S\$2 million from Mr. Wang Zhi if the Deed of Undertaking is not fulfilled;
- (e) key findings and recommendations by Binnies;
- (f) details of the key information, documents and datapoints requested for the due diligence that remain outstanding from Mr. Wang Zhi and deadline to provide such information
- (g) Board of Directors’ assessment of whether it will be proceeding with the proposed investment in the Gaoyi Project and the bases for this assessment. This should include

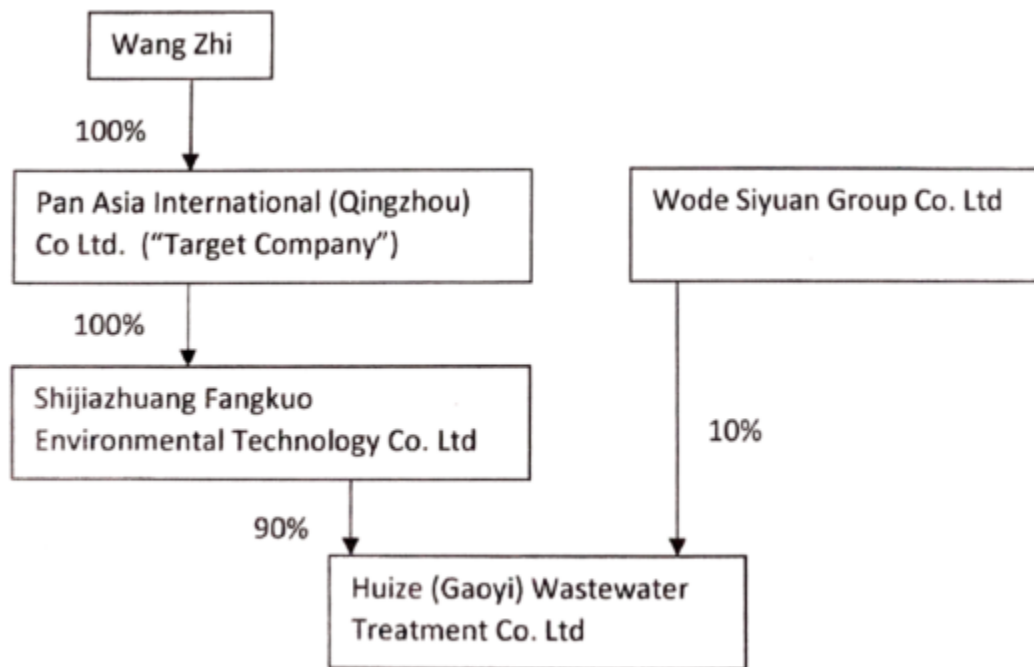
any concerns that were highlighted to the Board to reject the Gaoyi Project and the key findings and recommendations by Binnies; and

- (h) Board of Directors' assessment of (i) the timeline; and (ii) information required, for a definitive conclusion to be made on the Gaoyi Project in order for the Company to secure the legal recourse in relation to paragraph (d) above.

*Unless otherwise defined, all terms and references used herein shall bear the same meanings ascribed to them in the Notice.*

## 2. DETAILS OF THE CURRENT OWNERSHIP STRUCTURE IN THE GAOYI PROJECT

Based on representations previously provided to the Company by Mr. Wang Zhi, as well as independent public searches performed on the instructions of the Company on 12 June 2021 by the Companies' Chinese lawyers, Morgan, Lewis & Bockius LLP (Shanghai), the ownership structure in the Gaoyi Project is as follows:



According to Mr. Wang Zhi and as stated in the copy of the concession agreement dated 19 April 2018 that was provided to the Company, the concession rights had been granted to Huize (Gaoyi) Wastewater Treatment Co. Ltd. The intention is for the Company to acquire Pan Asia International (Qingzhou) Co Ltd. (referred to in the above structure chart as the Target Company) conditional upon, among others, satisfactory legal, financial and technical due diligence. After which, Mr. Wang Zhi would restructure Huize (Gaoyi) Wastewater Treatment Co. Ltd such that Wode Siyuan Group Co. Ltd would be bought out completely in accordance with the terms of the LOI and subject to the

terms of the relevant Share Purchase Agreement. For the avoidance of doubt, the terms of the relevant Share Purchase Agreement is yet to be finalised. The Company, with its ownership in Pan Asia International (Qingzhou) Co Ltd, would then wholly own the subsidiary Huize (Gaoyi) Wastewater Treatment Co Ltd.

### **3. DETAILS OF THE “WATER TREATMENT ASSET”**

Pursuant to the terms of the Placement Agreement and the Deed of Undertaking, Mr. Wang Zhi had undertaken to procure the transfer to the Company of a “Water Treatment Asset” within 24 months from the completion date of the Placement Agreement.

The “Water Treatment Asset” contemplated to be transferred to the Company (originally by 23 March 2020) pursuant to the Deed of Undertaking as disclosed in the Company’s announcement on 5 November 2018 is, pursuant to the non-binding letter of intent that was signed in respect of the Gaoyi Project (the “LOI”), the Gaoyi Project, subject to further terms and conditions as set out in the Company’s announcements on 23 October 2017 and 5 November 2018.

The salient terms of the Deed of Undertaking (as disclosed in Company’s announcement on 23 October 2017) are, *inter alia*, as follows:

- A. the Water Treatment Asset shall have a project internal rate of return of not less than 12% during its operational lifespan based on the concession granted by relevant government authorities; and
- B. the Water Treatment Asset shall be of a value not less than Renminbi 80,000,000.

The salient terms of the LOI (as disclosed in the Company’s announcements on 5 November 2018 and 9 September 2019) are (subject to entry into the final definitive agreement(s), *inter alia*, as follows:

- (i) Mr. Wang Zhi will transfer 100% of his equity interest in the Gaoyi Project to the Company;
- (ii) the total consideration for the proposed investment of 100% equity interest in the Gaoyi Project was Renminbi 60 million;
- (iii) the Company was to pay to Mr. Wang Zhi a sum of Renminbi 6,000,000 as deposit;
- (iv) the Company and Mr. Wang Zhi were to negotiate the detailed terms of the proposed investment in the Gaoyi Project and enter into a legally binding document in relation thereto; and
- (v) completion of the proposed investment in the Gaoyi Project will be subject to the satisfaction of certain conditions precedent including satisfactory due diligence findings by the Company.

Pursuant to the Supplemental Agreement and the Supplemental Deed, each dated 9 September 2019, the Company and Mr. Wang Zhi agreed to extend the deadline for the transfer of the Gaoyi Project to 23 March 2022 and, in the event that the Gaoyi Project was determined unsuitable by the Company:

1. Mr Wang Zhi shall, as soon as practicable offer to the Company an Alternative Water Treatment Asset (the “**AWTA**”) which satisfies the following conditions:
  - (a) subject to the Company’s funding capabilities and its available financial resources at the relevant time, the AWTA shall have a value of Renminbi 60 million or lower; and
  - (b) the Company being satisfied that the project in respect of the AWTA shall have a projected internal rate of return of at least 12.0%.
2. Both parties shall terminate the non-binding LOI that was signed in respect of the Gaoyi Project; and
3. Mr Wang Zhi shall immediately return to the Company the deposit of Renminbi 6,000,000 that the Company had paid to him.

**4. FACTS AND CIRCUMSTANCES SURROUNDING THE EXTENSION OF DEADLINE FOR THE TRANSFER OF THE GAOYI PROJECT OR THE “WATER TREATMENT ASSET”, INCLUDING THE BOARD’S ASSESSMENT AND BASES FOR THE EXTENSION OF DEADLINE**

The Board’s decision to seek an extension of the deadline for the transfer of the Gaoyi Project or the Water Treatment Asset has previously been set out in the Company’s announcements dated 9 September 2019 and 17 September 2019. To summarise, the Company had agreed to such extension of deadline after taking into account, among others, the following facts and factors:-

- (a) as set out in the Company’s announcement dated 13 August 2019 in respect of the unaudited financial statements for the half year ended 30 June 2019 (the “**HY2019 Announcement**”), out of the Group’s cash and bank balances of approximately S\$21.9 million as at 30 June 2019, approximately S\$14.5 million is maintained at the Group’s subsidiaries for their working capital to run daily operations;
- (b) the Group had then ventured into Vietnam, being the new market for its investment portfolio of building and maintaining water treatment systems. As set out in the HY2019 Announcement, the Company intended to continue to execute those projects in the 12 months following. The Company had therefore then anticipated that it would need to utilise all or a part of the then available cash and bank balances for the foregoing purpose as it deemed necessary;
- (c) the indicative consideration for the proposed investment of 100% equity interest in the Gaoyi Project was Renminbi 60.0 million (subject to entry into the final definitive agreement(s)).

The Company wishes to state that the decision to seek such an extension was first posited by the Company's former Chief Executive Officer, Mr. Poh Kok Hong, who informed the Board on 20 August 2019 that the financial situation of the Company would not allow it to support both the projects it had in Vietnam as well as the acquisition of the Gaoyi Project. In the same e-mail, Mr. Poh recommended the Company to postpone the Gaoyi Project since it was in the Company's interest to maintain the Gaoyi Project as a prospective acquisition target to expand its portfolio of projects.

The Board having considered the Company's finances, agreed that it would not be acting in good faith if the Company proceeded with technical due diligence for the Gaoyi Project without first securing funds for the acquisition of the Gaoyi Project (or such other Water Treatment Asset as may be identified). At the same time, the Board was of the view that the Gaoyi Project, if determined to be suitable for acquisition, would potentially contribute significantly to the financial performance of the Group based on the internal rate of return promised and would further bring strategic value to the Group in its expansion plans and future business.

Accordingly, an extension of the deadline for the acquisition and transfer of the Water Treatment Asset would allow the Company more time to source for appropriate financing options to fund the payment of the consideration for the acquisition of the Gaoyi Project (or such other Water Treatment Asset as may be identified) while keeping such project in the Company's portfolio pipeline.

Thereafter, Mr Poh was tasked by the Board to negotiate the requisite postponement of the investment into the Gaoyi Project with Mr. Wang Zhi. Mr. Poh subsequently reported to the Board that he had reached an agreement with Mr. Wang Zhi to postpone the deadline for the investment into the Gaoyi Project until 23 March 2022. The terms of the postponement are set out in the Company's announcements dated 9 September 2019 and 17 September 2019.

For completeness, the Company wishes to restate the following, which had been previously disclosed in the Company's announcement on 17 September 2019 and the annual report of the Company for the financial year ended 31 December 2019:

- (i) technical due diligence by the Company should only commence after the Gaoyi Project starts commercial operation. For the Gaoyi Project to start commercial operation, it would take approximately 40 to 50 days after refurbishment of the Gaoyi Plant has been completed. Technical due diligence would require between 90 days and 120 days to complete. 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 and technical due diligence; and
- (ii) based on the timeline required to undertake and complete the technical, environmental, legal and financial due diligence on the Gaoyi Project and the fact that due diligence can only be meaningfully undertaken when the Gaoyi Project is in full commercial operation, the fact that the Gaoyi Project was only in full commercial operation in January 2020 (as indicated to the Company) would have required an extension of time from the original



deadline of 22 March 2020 to complete the acquisition even if the Company had not required more time to raise the requisite funding.

## 5. DETAILS OF LEGAL RECOURSE AVAILABLE TO THE COMPANY UNDER THE PLACEMENT AGREEMENT AND SUPPLEMENTAL AGREEMENT

The legal recourse available to the Company has previously been set out in the Company's announcements dated 9 September 2019 and 17 September 2019. To recap:

Pursuant to the terms of the Placement Agreement (as amended by the Supplemental Agreement) as well as the Deed of Undertaking (as amended by the Supplemental Deed), both the Company and Mr. Wang Zhi have agreed that if, from the date of the Supplemental Agreement and the Supplemental Deed until the Extended Deadline (as defined below), the Company determines that the Gaoyi Project is an unsuitable asset for the purposes of the Asset Injection:

- (a) Mr. Wang Zhi shall, as soon as practicable, offer to the Company an AWTA which satisfies the conditions set out above in paragraph 3 of this announcement;
- (b) both parties shall immediately terminate the LOI; and
- (c) Mr. Wang Zhi shall immediately return the sum of Renminbi 6,000,000 to the Company, such sum having been paid by the Company (or its subsidiary) to Mr. Wang Zhi as a deposit pursuant to the LOI.

In addition, pursuant to the terms of the Placement Agreement (as amended by the Supplemental Agreement) and the Deed of Undertaking (as amended by the Supplemental Deed), in the event that:

- (a) the Board does not approve the Company's investment in the Water Treatment Asset being not in the interest of or beneficial to the Company (the Company to be acting reasonably and the Board acting in good faith) and the Company notifies Mr. Wang Zhi in writing of such decision (the "**Notice of Rejection**"), or
- (b) following the Board's approval of the Company's investment in the Water Treatment Asset, Mr. Wang Zhi fails to complete the transfer of the Water Treatment Asset to the Company or its subsidiary by 23 March 2022 (the "**Extended Deadline**"),

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).

The Company further wishes to state that the Board and the Company are bound by the terms of the Supplemental Agreement and the Supplemental Deed to act reasonably and in good faith in determining whether to issue the Notice of Rejection and/or the AWTA Notice of Rejection to Wang Zhi. In this vein, the Company will be required to properly assess the suitability of the Gaoyi Project and any AWTA before issuing either the Notice of Rejection and/or the AWTA Notice of Rejection.

The Company also notes that there is no timeline or procedure stated in the Placement Agreement (as amended by the Supplemental Agreement) or the Deed of Undertaking (as amended by the Supplemental Deed) for the issuance of either the Notice of Rejection and/or the AWTA Notice of Rejection.

## **6. KEY FINDINGS AND RECOMMENDATIONS BY BINNIES**

The due diligence by Binnies was intended to be an elimination process, with 5 stages expected should requirements for each stage be progressively met. To-date, Binnies has conducted the first stage of the due diligence and presented its views to the Board.

The key findings and recommendations by Binnies in the first stage of the due diligence process are, *inter alia*, as follows:

### Critical Requirements for Due Diligence

The following requirements were recommended by Binnies and concurred by the Company at the outset of the due diligence exercise:

- (a) document proof of the Vendor's ownership of the Concession/Asset;
- (b) document proof that the Asset has been accepted by the local authority to commence its commercial operation;
- (c) document proof to show that the Vendor has been receiving tariff payment in accordance with the Concession Agreement; and
- (d) the Vendor agreeing to provide more project information and facilitating a site visit/plant inspection, for a more in-depth due diligence to be conducted.

### Conditions Precedent to the Acquisition

Binnies had also concluded that as they had not been provided with document proof to demonstrate that any of the following conditions precedent had been met:

- (a) completion of the plant upgrade to 20,000 m<sup>3</sup>/day by the Project Company;
- (b) due diligence and verification of key assumptions on the plant operating parameters and costs;
- (c) procurement of the necessary approvals and permits, with respect to the Plant's concession rights and licenses, from the relevant PRC regulatory authorities and other relevant parties for the change in control of the Plant; and

- (d) procurement of the necessary waivers from the relevant PRC regulatory bodies with respect to any licenses which the Plant requires for the operations by the Group.

Preliminary Views

As of the first stage of the due diligence process, Binnies' preliminary views are, *inter alia*, as follows:

- (a) *“It is understood the refurbishment work has been performed to the Plant, however, the presently available information is insufficient for Binnies Singapore to express opinion on the technical, operational and financial conditions of the Gaoyi Plant. It is crucial to make available more information for Binnies Singapore to be able to undertake more comprehensive review of the design and operating conditions of the Asset. A site visit to the Gaoyi Plant would also be extremely useful and is a necessary step in any responsible due diligence. At the time of this report, no further project specific information has been made available and site visit/plant inspection has not been facilitated”;*
- (b) *“Some assumptions in the Cashflow Projection document would need substantiation to show that the investment would meet its 12% project IRR target. A major doubt is cast on the treatment volume of 40,000 m<sup>3</sup>/day in the near future when the Concession Agreement is only for a 20,000 m<sup>3</sup>/day plant with no mention of 40,000 m<sup>3</sup>/day”;*
- (c) *“Based on a preliminary review of the Cashflow Projection document, it appears that for the Gaoyi Asset to achieve a 12% project IRR at a value of RMB 60 million is less than likely. For the target investment to meet its financial target, substantiation is needed to show improved terms (such as higher tariff adjustment, higher minimum purchase volume, lower requirement for sludge dewatering and disposal) have been successfully negotiated by the Seller”;* and
- (d) *“At the time of this [first-stage] Report, none of the 4 critical requirements set out have been met, Binnies Singapore therefore does not recommend proceeding further with the subsequent stages of the due diligence works”.*

**7. DETAILS OF THE KEY INFORMATION, DOCUMENTS AND DATAPOINTS REQUESTED FOR THE DUE DILIGENCE THAT REMAIN OUTSTANDING FROM MR WANG ZHI AND DEADLINE TO PROVIDE SUCH INFORMATION**

The Company has, through its lawyers, requested Mr. Wang Zhi to provide several documents for the due diligence to be conducted on the Gaoyi Project.

The key information, documents and datapoints requested for the due diligence that remain outstanding from Mr. Wang Zhi (the “**Outstanding Information**”) are as follows:

- (a) Environmental Protection Bureau and/or Ministry of Housing & Urban Redevelopment certificates indicating the approval of commencement of commercial operation of the Gaoyi Plant;



- (b) copies of receipts of monthly tariffs for the past 12 months;
- (c) any supplemental agreement to the provided concession agreement;
- (d) historical financial & operational performance (broken down into monthly and annual performances, if possible) since January 2020, being the commencement of commercial operations;
- (e) financial forecast for the entire duration of the concession; and
- (f) dates which the Company's advisers and consultants could visit to undertake a site visit to the Gaoyi Plant.

The Company is expecting to receive these Outstanding Information from Mr Wang Zhi by the end of September 2021 in order to facilitate the acquisition of the Gaoyi Project by March 2022 if deemed suitable. The Company is reaching out to Mr. Wang Zhi to expedite the provision of these Outstanding Information and to confirm if he can fulfill the timelines.

**8. BOARD'S ASSESSMENT OF WHETHER IT WILL BE PROCEEDING WITH THE PROPOSED INVESTMENT IN THE GAOYI PROJECT AND THE BASES FOR THIS ASSESSMENT**

The Board is currently assessing whether to proceed with the proposed investment in the Gaoyi Project. As stated in the Company's announcement dated 16 August 2021, the Board has sought the Outstanding Information (as set out in paragraph 7 of this announcement) from Mr. Wang Zhi since 24 May 2021 on the Gaoyi Project. The Board has also since formed a committee to liaise with Wang Zhi and his team on provision of the Outstanding Information. If the Outstanding Information is provided to the Company's and the Board's satisfaction, the Company will be able to commence legal and further technical and economic due diligence. In the event that the Outstanding Information is provided and satisfactory, the due diligence investigations are satisfactory to the Company and the Gaoyi Project meets the Company's investment criteria, the Board anticipates that it will likely proceed with the investment into the Gaoyi Project. If the Outstanding Information is not provided or is not satisfactory, and/or due diligence investigations are not satisfactory to the Company, and/or the Gaoyi Project does not meet the Company's investment criteria, the Board is likely to proceed to issue the Notice of Rejection to Mr. Wang Zhi.

The Company wishes to emphasize that it has not reached a decision whether to proceed with the Gaoyi Project as it is awaiting the Outstanding Information from Mr. Wang Zhi by 30 September 2021. To-date, Binnies has completed only the first out of five stages of the due diligence process.

**9. BOARD'S ASSESSMENT OF (I) THE TIMELINE; AND (II) INFORMATION REQUIRED, FOR A DEFINITIVE CONCLUSION TO BE MADE ON THE GAOYI PROJECT IN ORDER FOR THE COMPANY TO SECURE THE LEGAL RECOURSE DESCRIBED IN PARAGRAPH 5 OF THIS ANNOUNCEMENT**

Under the terms of the Supplemental Agreement and the Supplemental Deed, both the Company and Mr. Wang Zhi has until 23 March 2022 to determine if the Company is to proceed with the



investment into the Gaoyi Project or into any AWTA. The Company intends to use all the time available to it to assess whether the Gaoyi Project or any other AWTA investment is feasible. In this regard, the Board and the Company is bound by the terms of the Supplemental Agreement and the Supplemental Deed to act reasonably and in good faith in respect of any decision it makes to either proceed with or reject the investment into the Gaoyi Project or the AWTA.

Currently, the Company is awaiting provision of the Outstanding Information from Mr. Wang Zhi. If the Outstanding Information is provided to the Company's and the Board's satisfaction by 30 September 2021, the Company will be able to commence legal and further technical and economic due diligence. In the event that the Outstanding Information is provided and satisfactory, the due diligence investigations are satisfactory to the Company and the Gaoyi Project meets the Company's investment criteria, the Board anticipates that it will likely proceed with the investment into the Gaoyi Project. If the Outstanding Information is not provided or is not satisfactory, and/or due diligence investigations are not satisfactory to the Company, and/or the Gaoyi Project does not meet the Company's investment criteria, the Board is likely to proceed to issue the Notice of Rejection to Mr. Wang Zhi. This would then trigger Mr Wang Zhi's obligations under the Supplemental Agreement and the Supplemental Deed to provide the AWTA. In the event the AWTA is also not suitable, the Company thereafter may secure its rights as described in paragraph 5 of this announcement.

#### **10. CAUTION IN TRADING**

**Shareholders and potential investors of the Company are advised to read this announcement and any further announcements made by the Company carefully. Shareholders and potential investors of the Company are advised to refrain from taking any action with respect to their securities in the Company which may be prejudicial to their interests, and to exercise caution when dealing in the securities of the Company. Shareholders and potential investors of the Company should consult their stockbrokers, bank managers, solicitors or other professional advisers if they have any doubt about the actions they should take.**

#### **BY ORDER OF THE BOARD**

Kong Chee Keong  
Executive Director and Chief Executive Officer

17 September 2021