



SOLUTIONS TO WATER & WASTE

**DARCO WATER TECHNOLOGIES
LIMITED**

(Incorporated in the Republic of Singapore)
(Company Registration No. 200106732C)

**RESPONSES TO QUESTIONS RECEIVED FROM
SECURITIES INVESTORS ASSOCIATION SINGAPORE (“SIAS”) ON ANNUAL REPORT 2021**

The Board of Directors (the “**Board**”) of Darco Water Technologies Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) refers to the annual report of the Company for the financial year ended 31 December 2021 (the “**FY2021 Annual Report**”) published on SGXNet on 8 April 2022. The Board would like to provide responses to the questions received from the Securities Investors Association (Singapore)(“**SIAS**”) as follows:

- 1. Revenue for the financial year ended 31 December 2021 decreased by 30% to \$54.6 million. This was attributed mainly to lower revenue from the Engineered Environmental Systems (“EE Systems”) segment as fewer engineering, procurement, and construction (“EPC”) projects were secured in Malaysia and China in FY2021.**

Net loss for the year was \$(7.3) million compared to a net profit of \$1.3 million in FY2020. The group has three operating and reportable segments – EE Systems, Water Management Services (“WM Services”) and Trading.

- (i) For the benefit of shareholders, can management provide greater clarity on the group’s value proposition in the three operating segments? How does management create and capture value for shareholders?**

Response:

The three segments are synergistic with each other. EE Systems are EPC (i.e., Engineering, Procurement & Construction) projects where the Group designs and builds the engineered water system (plant) and pneumatic waste vacuum solutions. Completed EE systems projects have the potential for winning WM Services contracts where the Group is engaged to maintain the system.

Trading captures the supplies and products required for plant’s operation such as chemicals, consumables, and spare parts arising from securing WM Services. By being able to offer all three services (which many smaller operators in this industry are not able to), Darco strives to enhance shareholder value which would not be the case if any of these three segments are not offered.

The Group's advantage is its capability to be a one-stop solution provider of EE Systems and WM Services tailored to the requirements of the customer. The Company strives to create value by accentuating this position of strength, its brand as well as enhancing it through strategic and or technology partnerships such as distributorships or even acquisitions.

- (ii) **What is the targeted capital allocation between the EE systems, WM services and trading segments going forward? In terms of geographical areas, where will the group be committing most of its human resources and capital?**

Response:

The value of the targeted capital allocation between the three business segments is the Group's business strategy and the information should not be disclosed publicly to fall into the hands of competitors.

As for business by geographical area, Darco focuses on the ASEAN countries and China.

- (iii) **What are the existing projects and/or order book on hand in the EPC segment? What is the group's competitive advantage in EPC?**

Response:

Please refer to page 130 of the FY2021 Annual Report. As of 31 December 2021, the Group's Order Book stands at S\$66 million, with S\$34 million to be executed over the next 12 months. For reasons of client business confidentiality, the Company will not be disclosing the list of projects.

The Group's competitive advantage in EPC is the capability to be a one-stop solution provider of EE Systems and WM Services tailored to the requirements of the customer. The Group designs, builds as well as provides maintenance services for the completed plant and explores opportunities for design, build and operate too. The Group's designs incorporate features that enhance energy and pump efficiency, using control systems that minimise manpower needed to operate the plant.

The brand premium associated with Darco Water Technologies is well-established in the region and is a valuable asset for the growth of the Company's business. Above all, the Group's competitive advantage lies in its staff, many of whom are veterans of the water industry in Singapore, Malaysia and China and the knowledge-base that they have built up over the years since the Company's listing in 2002.

- (iv) **Vietnam (Ba Lai water supply project): What are remaining milestones before the operationalisation of the 15,000m³ water treatment plant?**

Response:

Currently, the Ba Lai project is at the construction stage, and pending submission of water tariff application to the Vietnamese authority. The project is expected to achieve commercial operational status by the end of the year 2022.

2. Would the board/management provide shareholders with greater clarity on the following financial and governance matters? Specifically:

- (i) **Alternative water treatment asset: On 21 March 2022, the company announced that it decided not to proceed with an investment in the alternative water treatment asset as the investment would not be in the interest of or beneficial to the company.**

A notice of rejection was issued. The company stated that it will be reaching out to Mr Wang Zhi with regard to the compensation sum of \$2 million. Can the company provide shareholders with an update on the compensation sum? The compensation sum is due within 5 business days from the date on which the company delivers the notice of rejection to Mr. Wang Zhi.

Response:

The Company is currently in communication with and has exchanged several correspondences with Mr. Wang Zhi on the settlement of the compensation sum of S\$2,000,000 that is payable following the delivery of the AWTA Notice of Rejection. Please refer to the announcement dated 18 April 2022.

- (ii) **Whistleblowing (Wuhan Kaidi Water Service Company (“WHKD”)): Are there any outstanding matters related to the whistle-blowing at WHKD? The company published a summary of the key findings by Crowe Horwath First Trust LLP (“Crowe Singapore”) in the company’s update on 30 November 2021.**

What is the level of oversight on the operational and financial matters of WHKD by the senior management in Singapore given that borders remain largely closed?

Response:

The Company has appointed a PRC tax specialist to review the past tax filings of WHKD to assess whether there are any tax implications in connection with the findings of Crowe Singapore. The report of the PRC tax specialist is in the process of being finalised and based on the review findings, it is expected that there will not be any additional tax provisions/payments required.

The Company has majority control of WHKD's Board of Directors. Mr. Zhao Yong Chang, the Company's Executive Director, has been appointed as the Managing Director of WHKD in February 2021 and based in WHKD to oversee the day-to-day operations of WHKD since April 2021. He is also the legal representative of WHKD.

On a monthly basis, senior management in Singapore conducts monthly management meetings where Mr. Zhao and his key team members provide business and financial updates. China-Singapore business travel lanes remained largely open and Mr. Zhao, who is a Singapore citizen, makes regular trips back to Singapore to update the CEO and the Company's Board of Directors on WHKD's progress. Mr. Zhao has many years of experience operating in China water industry and is familiar with the country's business culture, regulations, and knowledge of the competition.

- (iii) **Notice of compliance: Similarly, are there outstanding matters from the notice of compliance issued by the Singapore Exchange Regulation (SGX RegCo) on 10 September 2021?**

Response:

The Company refers to its announcements on 17 September 2021, 23 September 2021, 24 September 2021, 6 October 2021, 13 October 2021, 2 November 2021, 21 March 2022, and 18 April 2022 (the "Previous Announcements"). As disclosed in the Previous Announcements, the Company has issued the AWTA Notice of Rejection in relation to the Alternative Water Treatment Asset and the Company is currently in communication with and has exchanged several correspondences with Mr. Wang Zhi on the settlement of the compensation sum of S\$2,000,000 that is payable following the delivery of the AWTA Notice of Rejection. The Board will update shareholders on further developments in due course.

Save as disclosed in the Previous Announcements, there are no outstanding matters from the notice of compliance issued by the SGX RegCo on 10 September 2021.

3. Re the re-election of all 5 Directors who will be retiring at the AGM

- (i) **Has the nominating committee (NC) reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?**

Response:

The Nominating Committee ("NC") has established an appraisal process to assess and evaluate the performance and effectiveness of the Board as a whole and its Board

Committees and for assessing the contribution of the Chairman and each individual Director to the effectiveness of the Board.

The evaluation is conducted annually to identify areas of improvement and as a form of good Board management practice.

The work of the NC and the details of the appraisal process are spelt out in the corporate governance report included in the FY2021 Annual Report.

- (ii) **Can the NC help shareholders understand if the independent directors have the appropriate balance and mix of skills, knowledge, experience, especially in engineering, procurement, water and waste treatment and business experience in Vietnam, Indonesia, and China to engage in effective and constructive debate with the executive directors?**

Response:

The current board composition complies with the Code of Corporate Governance as well as recommendations on Board diversity. Whilst the Company is open to having an Independent Director with an engineering background, having one with specific knowledge and experience in water treatment projects in China willing and able to be an Independent Director of the Company may not be readily available.

The Company also engages professionals such as Binnies, the water infrastructure and services advisory company, to assess professionally and independently the merits of each major project.

On the executive side, the CEO Mr. Kong Chee Keong and WHKD Managing Director Mr. Zhao Yong Chang both of whom have extensive experience in project management. In particular, Mr. Zhao Yong Chang, with his specific water treatment experience in China is a valuable asset to the Group.

In addition, Managing & Country Director of the Group's Malaysian subsidiaries, Mr. Phua Kia Chik who oversees the Malaysian operations, is a competent manager-cum-engineer due to his foundation and experience in both these fields.

BY ORDER OF THE BOARD

Kong Chee Keong
Executive Director and Chief Executive Officer

19 April 2022