



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

**ANNOUNCEMENT ON RESPONSES TO ADDITIONAL QUERIES RECEIVED FROM
THE SINGAPORE EXCHANGE REGULATION ON 20 SEPTEMBER 2021
IN RELATION TO THE NOTICE OF COMPLIANCE ISSUED BY THE
SINGAPORE EXCHANGE REGULATION ON 10 SEPTEMBER 2021**

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 and the Company’s announcement on its responses to the Notice released on 17 September 2021 (the “**Previous Announcement**”).

The Board further refers to the Company’s announcement made on 23 September 2021 on the issuance by the Company of a notice to Mr Wang Zhi informing him that the Company has determined that the Gaoyi Project is an unsuitable asset for the purposes of the Asset Injection. Shareholders and potential investors of the Company are advised to read the aforesaid 23 September 2021 announcement in conjunction with this announcement.

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

2. RESPONSES TO QUERIES FROM SGX REGCO

The Board would like to respond to the following additional queries raised by the SGX RegCo on 20 September 2021 (the “**SGX Queries**”, and each, an “**SGX Query**”):

SGX Query (a):

It is stated in the Announcement that, “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.” Please disclose the salient terms of the concession agreement.

Company’s response to SGX Query (a):

As the Company is not a party to the concession agreement, it would have to seek the consent of Huize (Gaoyi) Wastewater Treatment Co. Ltd (“**Huize**”) which, in turn, is required to seek the

agreement of the Chinese counterparty and its waiver of the confidentiality obligations before the salient terms of the concession agreement dated 19 April 2018 (the “**Concession Agreement**”) can be publicly disclosed.

In any event and as disclosed in the Company’s announcement made on 23 September 2021, the Company has issued a notice to Mr Wang Zhi (“**Mr Wang**”) informing him that the Company has determined that the Gaoyi Project is an unsuitable asset for the purposes of the Asset Injection. Accordingly and as previously disclosed in paragraph 3.3 of the Company’s announcement dated 9 September 2019 (“**9 September Announcement**”):

- (a) Mr Wang shall, as soon as practicable, offer to the Company an alternative water treatment asset which satisfies the conditions listed in paragraph 3.4 of the 9 September Announcement;
- (b) the Company and Mr Wang shall immediately terminate the LOI; and
- (c) Mr Wang shall immediately return the deposit of Renminbi 6,000,000 previously placed by the Company with him.

In light of the above (in particular, the determination by the Company that the Gaoyi Project is an unsuitable asset for the purposes of the Asset Injection), the Company is of the view that the salient terms of the Concession Agreement are no longer material or relevant. Further, with this latest development, it is unlikely that consent from Huize and the Chinese counterparty to the Concession Agreement would be forthcoming.

SGX Query (b):

Please disclose the relationship between Huize (Gaoyi) Wastewater Treatment Co. Ltd and the water treatment plant, and details of the ownership of the water treatment plant and its related assets (including and not limited to land, property, plant and equipment etc).

Company’s response to SGX Query (b):

The Company would like to clarify that it currently does not have the requisite information to determine with certainty the relationship between Huize and the water treatment plant. Based on the limited information made available to the Company, Huize has been granted the operational rights to the Gaoyi Plant. The precise details on what assets and plants would be made available in respect of the concession rights granted to Huize to enable it to operate the Gaoyi Plant are not currently available to the Company. In so far as the Company is aware, the ownership rights to the water treatment plant and its related assets are expected to remain with the Chinese counterparty and/or the relevant designated agency(ies) with Huize awarded only the right to operate the Gaoyi Plant.

Suffice to say that the Company would have included the determination of the relationship between Huize and the water treatment plant as well as the ascertainment of the ownership of the water

treatment plant and its related assets as part of the Company's legal and technical due diligence if the decision had been to proceed with the Gaoyi Project for the purposes of the Asset Injection.

SGX Query (c):

Please disclose if these assets as stated in response to paragraph (b) would be transferred to the Company when the Water Treatment Asset is being transferred to the Company.

Company's response to SGX Query (c):

Please refer to the Company's response to SGX Query (b) above. In short, the grant of only the operational rights to Huize was contemplated under the current terms of the Concession Agreement. In any case, this is no longer material given the Company's determination that the Gaoyi Project is an unsuitable asset for the purposes of the Asset Injection.

SGX Query (d):

Please disclose the relationship among Mr Wang Zhi, Huize (Gaoyi) Wastewater Treatment Co. Ltd, He Bei Kai Yuan Cheng He Water Engineering Co., Ltd. and Wode Siyuan Group Co. Ltd.

Company's response to SGX Query (d):

As disclosed in the Previous Announcement, and based on representations made to the Company by Mr Wang, as well as based on independent public searches that were available and performed on the instructions of the Company on 12 June 2021:

- (i) Mr. Wang Zhi holds 100% of Pan Asia International (Qingzhou) Co Ltd., the target company (the "**Target Company**");
- (ii) the Target Company holds 100% of Shijiazhuang Fangkuo Environmental Technology Co. Ltd, which in turn holds 90% of Huize; and
- (iii) Wode Siyuan Group Co. Ltd holds 10% of Huize.

As of the date of this announcement, the Company does not have any information on the relationship (if any) between Mr Wang and Wode Siyuan Group Co. Ltd.

Based on representations made to the Company by Mr Wang, the Company was given to understand that Mr Wang had, through the abovementioned holding companies (namely, Pan Asia International (Qingzhou) Co Ltd. and Shijiazhuang Fangkuo Environmental Technology Co. Ltd), bought over the 90% ownership of Huize from He Bei Kai Yuan Cheng He Water Engineering Co., Ltd., a company of which Mr Wang was the controlling shareholder.

SGX Query (e):

It is stated in the Announcement that, “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.” Please disclose the salient terms for Wode Siyuan Group Co. Ltd to be bought out under the LOI, including the identity of the party who will bear the cost of restructuring Huize.

Company’s response to SGX Query (e):

The Company would like to clarify that under the terms of the LOI, Mr Wang had undertaken to procure the purchase by the Target Company of the remaining 10% ownership interest of Huize held by Wode Siyuan Group Co. Ltd as part of the restructuring so that the Company would have acquired 100% ownership interest of Huize and, in turn, the concession rights granted to Huize upon Company’s proposed acquisition of the Target Company.

The intended restructuring of the holding of the ownership interest of Huize (including the cost of such restructuring) was to be undertaken by Mr Wang. The Company has not been made privy to the terms of the restructuring including the terms on which Mr Wang had purchased or would be purchasing the 10% ownership interest of Huize. The Company would like to further note that the proposed acquisition by the Company of the Target Company and, in turn, 100% ownership interest of Huize would have to be subjected to the terms and conditions of a definitive sale and purchase agreement that has yet to be negotiated and finalized between the Company and Mr Wang.

SGX Query (f):

It is stated in the Announcement that, “Mr. Wang Zhi will transfer 100% of his equity interest in the Gaoyi Project to the Company”. Please clarify what is meant by 100% of his equity in the Gaoyi Project. Please provide details of assets to be transferred to the Company pursuant to the LOI for the Gaoyi Project. Please clarify the assets which are required to have a project internal rate of return of not less than 12%, be subject to due diligence and be of a value not less than Renminbi 80,000,000.

Company’s response to SGX Query (f):

Please refer to the Company’s responses to SGX Query (b) and SGX Query (e) above.

The Company would like to reiterate that the original intention of the Company was to acquire and control all the concession rights that Huize has to operate the Gaoyi Plant for an indicative consideration of Renminbi 60 million. The Company would like to clarify that the “100% of his equity in the Gaoyi Project” was meant to refer to the equity interest which Mr Wang holds in the Target Company which, in turn, indirectly entitles the Company (if the acquisition of the Target Company had taken place) to the full control and benefits of the concession rights that Huize has in relation to the Gaoyi Plant. As noted in the Company’s response to SGX Query (b), the Company

understands that Huize has only been granted the right to operate the Gaoyi Plant and not the ownership of the water treatment plant and its related assets constituting the Gaoyi Plant. In so far as the Company is aware, the ownership rights to the water treatment plant and its related assets are expected to remain with the Chinese counterparty and/or the relevant designated agency(ies) with Huize awarded only the right to operate the Gaoyi Plant. As further noted above, the precise details on what assets and plants would be made available in respect of the concession rights granted to Huize to enable it to operate the Gaoyi Plant are not currently available to the Company.

The Company notes that the above-mentioned is no longer material given that the Company has determined that the Gaoyi Project is an unsuitable asset for the purposes of the Asset Injection.

SGX Query (g):

Please disclose the timeline for the Board to make an assessment of the suitability of the Gaoyi Project in the event of the Board's approval of the Gaoyi Project so as to complete the acquisition by the Extended Deadline, taking into consideration the time required to commence legal and further technical and economic due diligence.

Company's response to SGX Query (g):

As disclosed above, the Company has issued a notice to Mr Wang informing him of the Company's determination that the Gaoyi Project is an unsuitable asset for the purposes of the Asset Injection. Please refer to the Company's announcement made on 23 September 2021 in respect of the aforesaid notification. In light of the foregoing, no further assessment will be made by the Board on the suitability of the Gaoyi Project.

SGX Query (h):

Please explain the implications on the Company in securing the legal recourse as described in paragraph 5 if the Notice of Rejection of the Gaoyi Project is issued close to or on 23 March 2022.

Company's response to SGX Query (h):

As noted above, the Company has already issued a notice to Mr Wang informing him that the Gaoyi Project is an unsuitable asset for the purposes of the Asset Injection. Under the terms of the Deed of Undertaking (as amended by the Supplemental Deed) and as stated in the Company's response to SGX Query (a) above, Mr Wang shall offer to the Company as soon as practicable an alternative water treatment asset (i.e., AWTA) which satisfies the conditions listed in paragraph 3.4 of the 9 September Announcement. As noted in the Previous Announcement, 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 Company to assess the suitability of the AWTA and the issuance (as appropriate) of the AWTA Notice of Rejection. In the event that: (a) the Board does not approve the Company's investment in the AWTA due to such investment not being 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 issues the AWTA Notice of Rejection; or (b) following the Board's approval of the Company's investment in the AWTA, Mr Wang fails to procure the completion of the transfer of the AWTA to the Company or its subsidiary by the Extended Deadline, Mr Wang 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 Mr Wang (as the case may be).

Whilst the Company intends to make an assessment on the suitability of the AWTA offered and determine if the Company should proceed with the acquisition of the AWTA or to reject the AWTA on the basis of it not being in the interest of or beneficial to the Company, much would depend on the quality of, and speed at which, information and documents are provided to the Company for its consideration.

SGX Query (i):

In respect of section 8 on board's assessment of whether it will be proceeding with the proposed investment in the Gaoyi Project and the bases for this assessment, please detail any concerns that were highlighted to the Board to reject the Gaoyi Project and the Board's assessments of these concerns.

Company's response to SGX Query (i):

Please refer to the Company's announcement made on 23 September 2021 in respect of the notice issued to Mr Wang informing him that the Company has determined that the Gaoyi Project is an unsuitable asset for the purposes of the Asset Injection and the basis on which the Company arrived at such determination.

The Company would like to further clarify as below.

- (i) The management of the Company had previously brought the following to the attention of the Board:
 - (a) based on Binnies' preliminary findings and recommendations (details of which had been disclosed in the Previous Announcement), the Gaoyi Project is less than likely to provide a 12% project internal rate of return on a Renminbi 60 million investment;
 - (b) the Company had written to Mr Wang on separate occasions to request for additional official documentation to justify or support a different conclusion from that set out in preceding paragraph (i)(a); and
 - (c) upon issuing the notice rejecting the Gaoyi Project as a suitable asset for the purposes of the Asset Injection, Mr Wang would have to be given an opportunity to offer an AWTA (i.e., an alternative water treatment asset).

In order to ensure that there would be sufficient time for the Company to assess the suitability of the AWTA as well as to complete the necessary corporate action (including obtaining the requisite shareholders' approval) to conclude the purchase (if deemed suitable), the management of the Company had then recommended, as one of the options and after having taken into consideration the remaining period leading to the Extended Deadline, that the Company should reject the Gaoyi Project earlier than later.

- (ii) The Board had assessed the abovementioned concerns and came to the conclusion that, notwithstanding the said concerns, it would be premature to reject the Gaoyi Project as Binnies' findings and recommendations were only given and made on a preliminary basis. It was also noted that the information that had been made available to Binnies for their review was limited. Without the Outstanding Information from Mr Wang, Binnies were unable to conclusively determine whether the Gaoyi Project was able to provide a 12% project internal rate of return on a Renminbi 60 million investment. As such, the Board had at that point of time determined that additional time ought to be given to Mr Wang to provide the Outstanding Information so that the Board, with the help of professional advisers, could make a more informed decision as to whether to proceed with the Gaoyi Project.
- (iii) The Company would like to further note that in line with what was stated in section 8 of its response to the SGX RegCo's Notice, the Board has proceeded to issue the notice to Mr Wang that the Gaoyi Project is not a suitable asset for the purposes of the Asset Injection given that the Company is unable to properly assess if the Gaoyi Project meets the Company's investment criteria in the absence of a complete set of the Outstanding Information. Please refer to the Company's announcement made on 23 September 2021 on the issuance by the Company of the notice to Mr Wang informing him that the Company has determined that the Gaoyi Project is an unsuitable asset for the purposes of the Asset Injection.

3. 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

24 September 2021