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10 September 2021

The Board of Directors

Darco Water Technologies Limited
Harvest@Woodlands
280 Woodlands Industrial Park E5 #09-36
Singapore 757322

Dear Sirs

**DARCO WATER TECHNOLOGIES LIMITED (THE "COMPANY")
NOTICE OF COMPLIANCE (THE "NOTICE")**

1. Singapore Exchange Regulation ("**SGX RegCo**") refers to the Company's SGXNet announcements:-
 - (a) dated 23 October 2017, entitled "*General announcement::Proposed placement of new ordinary shares in the capital of Darco Water Technologies Limited*" ("23 October 2017 Announcement");
 - (b) dated 1 February 2018, entitled "*Placements::Proposed issuance and placement of ordinary shares in the capital of the Company*" ("1 February 2018 Announcement");
 - (c) dated 22 February 2018, entitled "*Extraordinary/ special general meeting:: Voluntary*" ("22 February 2018 Announcement");
 - (d) dated 12 March 2018, entitled "*REPL::Extraordinary/ special general meeting:: Voluntary*" ("12 March 2018 EGM Announcement");
 - (e) dated 12 March 2018, entitled "*Placements::Proposed issuance and placement of ordinary shares in the capital of the Company - Update*" ("12 March 2018 Placement Announcement");
 - (f) dated 23 March 2018, entitled "*REPL::Placements::Proposed placement of up to 30,251,151 new ordinary shares in the capital of the Company-Completion*" ("23 March 2018 Announcement");
 - (g) dated 5 November 2018, entitled "*General announcement::Darco proposes investment in domestic waste water treatment project in Hebei*" ("5 November 2018 Announcement");

Singapore Exchange Regulation Pte. Ltd.
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- (h) dated 9 September 2019, entitled "*Placements::Placement of 30,251,151 new ordinary shares - update on the asset injection & extension of deadline*" ("9 September 2019 Announcement");
- (i) dated 17 September 2019, entitled "*Response to SGX queries::*" ("17 September 2019 Announcement");
- (j) dated 17 March 2021, entitled "*General announcement::Call by certain shareholders for the Company to commence action against a director*" ("17 March 2021 Announcement");
- (k) dated 16 August 2021, entitled "*Response to SGX queries::*" ("Response of 16 August 2021");
- (l) dated 30 August 2021, entitled "*Change - Announcement of cessation:: Announcement of cessation of executive director and chief executive officer*" ("30 August 2021 Announcement");
- (m) dated 1 September 2021, entitled "*General announcement::Company's response to certain statements made by its Chief Executive Officer*" ("1 September 2021 Announcement"); and

the Circular to Shareholders dated 23 February 2018 in relation to, amongst others, the proposed placement of up to 30,251,151 new shares in the capital of the Company to Robert Wang @ Wang Zhi.

2. **The Gaoyi Project**

- 2.1 On 23 October 2017, the Company announced that it has on 20 October 2017 entered into a placement agreement (the "Placement Agreement") with Mr Wang Zhi, pursuant to which the Company shall issue between a minimum of 23,987,726 and a maximum of 30,251,151 new Shares (the "Placement Shares"), at a placement price of S\$0.65 per Placement Share ("Wang Zhi Placement").
- 2.2 The 23 October 2017 Announcement stated that the completion of Wang Zhi Placement is conditional upon, amongst others, Mr Wang Zhi executing a deed of undertaking (the "Deed of Undertaking") pursuant to which Mr Wang Zhi undertakes to procure the transfer to the Company a Build-Operate-Transfer or Build-Operate-Own water treatment asset or concession ("Water Treatment Asset") within twenty-four (24) months from the completion date (the "Asset Injection"). The Deed of Undertaking shall contain the following terms:
 - (a) The Water Treatment Asset shall fulfil the following criteria, and the Company's investment therein shall be subject to the approval of the Board:
 - (i) 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
 - (ii) the Water Treatment Asset shall be of a value not less than RMB80,000,000;

(b) In the event that:

(i) 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

(ii) 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 within twenty-four (24) months from the completion date,

Mr 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 five (5) Business Days from the expiry of the twenty-four (24) month period following completion of the Placement Agreement or from the date on which the Company delivers the Notice of Rejection to Mr Wang Zhi (as the case may be).

- 2.3 As disclosed in the shareholders' circular of 23 February 2018, Mr Wang Zhi had executed the aforementioned Deed of Undertaking. The Placement was completed on 23 March 2018, pursuant to which an aggregate of 27,680,000 Placement Shares were issued and allotted to Mr Wang Zhi.
- 2.4 On 5 November 2018, the Company announced that it has signed a non-binding Letter of Intent with Mr Wang Zhi in respect of a proposed investment in a Build-Operate-Transfer Gaoyi Domestic Waste Water Treatment Project (the "Gaoyi Project"), which holds a 30-year concession on a Waste Water Treatment Plant, in satisfaction of his obligation, pursuant to the Deed of Undertaking. It is also disclosed that Mr. Wang Zhi will transfer 100% of his equity interest in the Gaoyi Project to the Group, which he held through He Bei Kai Yuan Cheng He Water Engineering Co., Ltd. ("HKC"). Mr Wang Zhi was the controlling shareholder of HKC. Based on the Company's knowledge, which is subject to verification and due diligence, HKC signed a co-operation agreement with Wo De Si Yuan Group Co. Limited, ("WDSY", "沃德思源集团有限公司"), a PRC company that had successfully won the Project in an open tender from the Gaoyi County Government back in December 2016. The special purpose vehicle for the Project was incorporated on 11th July 2017, under the name of HuiZe (Gaoyi) Sewage Treatment Co., Ltd ("Project Company", "HuiZe"). The Company's proposed investment in the Gaoyi Project is an "interested person transaction" under Chapter 9 of the SGX Listing Rules and will be subject to shareholders' approval.
- 2.5 On 9 September 2019, the Company announced that Mr Wang Zhi and the Company have entered into a supplemental agreement to extend the deadline for the transfer to the Company of the Water Treatment Asset from 23 March 2020 to 23 March 2022. The same announcement stated, inter alia, that the Company (or its subsidiary) has paid to Mr Wang Zhi a sum of RMB 6 million as deposit. The total sum of deposit and potential compensation sum, amounting to approximately S\$3.2m, is 7% of the Group's latest audited net tangible assets for the financial year ended 31 December 2020.
- 2.6 As disclosed in the Response of 16 August 2021, the Company appointed Binnies Singapore Pte. Ltd. ("Binnies") as the independent party technical and economic due diligence consultant on 3 June 2021 and that the Company had since 24 May 2021 requested Mr Wang Zhi to provide additional information, documents and datapoints. The Company also disclosed that it has not been able to commence legal due diligence

pending the provision of the additional information, documents and datapoints requested from Mr Wang Zhi.

- 2.7 On 30 August 2021, the Company announced the cessation of its Executive Director and Chief Executive Officer, Mr Poh Kok Hong. It is stated in the 30 August 2021 Announcement that, "In my opinion, the Gaoyi project does not seem to be viable based on the information and documents available to me and the Company. The Company has requested for further information and documents on Gaoyi, but they are still pending. Therefore, I have recommended to the Board to reject Gaoyi so that the Vendor can propose an Alternative Water Asset".
- 2.8 On 1 September 2021, the Board disclosed via SGXNet its responses to Mr Poh's statements as contained in the Announcement of 30 August 2021. In particular, the Board notes that it is premature at this juncture to draw a definitive conclusion (i.e. that the Gaoyi project is or is not viable) and that the Company should draw a definitive conclusion on a fully informed basis including after having considered the information and documents requested for.

3. **SGX RegCo's Directives**

- 3.1 Listing Rule 1405 provides that the Exchange may exercise administrative powers for the purposes of ensuring that the market is fair, orderly and transparent. In this regard, the Exchange may, inter alia: (a) issue public queries to an issuer under Listing Rule 1405(1)(a); and (b) require an issuer to make specified disclosures under Listing Rule 1405(1)(b).
- 3.2 Based on the announcements released by the Company to-date, it is unclear as to what is to be transferred to the Company in relation to the Gaoyi project ie whether it is the Waste Water Treatment Plant or the shareholdings in HKC, Hui Ze etc. We also noted that (i) a deposit of RMB 6 million (about S\$1.2 million) has been paid to Mr Wang Zhi in relation to the "Water Treatment Asset"; (ii) the deadline for the transfer to the Company of the Water Treatment Asset has been extended to 23 March 2022; (iii) Binnies has been appointed to undertake due diligence; and (iv) further information is outstanding from Mr Wang Zhi. No decision has been made by the Board of the Company to-date and legal due diligence has not commenced on the proposed investment in the Gaoyi Project.
- 3.3 In light of the above, SGX RegCo hereby requires 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:
- (i) 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 relationships between these parties;
 - (ii) 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;
 - (iii) 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;

- (iv) Details of 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;
 - (v) Key findings and recommendations by Binnies;
 - (vi) 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;
 - (vii) 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
 - (viii) 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 (iv).
- 3.4 Pursuant to Listing Rule 1405(4), failure to comply with the requirements imposed by SGX RegCo shall be deemed to be a contravention of the Listing Rules.
- 3.5 Please note that compliance with this Notice does not constitute a waiver of any kind, and SGX RegCo reserves the right to take disciplinary action against the Company and/or any Relevant Person(s) for breaches of the Listing Rules, including any failure to comply with the requirements imposed by SGX RegCo.

Yours faithfully

June Sim
Senior Vice President
Head, Listing Compliance
SGX RegCo