



DARCO

SOLUTIONS TO WATER & WASTE
DARCO WATER TECHNOLOGIES LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration Number 200106732C)

SUMMARY OF SHAREHOLDERS' FORUM

The Board of Directors (the “**Board**”) of Darco Water Technologies Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) held a shareholders’ forum (“**Shareholders’ Forum**”) on 17 December 2019 to address concerns raised by certain shareholders relating to the strategic direction and future plans of the Group on an informal basis. No decisions and resolutions (whether through voting or otherwise) were taken or passed at the Shareholders’ Forum which was organised solely as an informative and update session for shareholders only.

Please find below the summary of key points that were raised and/or discussed at the Shareholders’ Forum (with additional information to further elaborate on some of these points):

1. Why did the Group decide not to further venture into solar power industry?

- Generally, solar power industry offers an attractive and a fast return. However, the Group also notices that obtaining a better tariff is getting more challenging now as the industry is experiencing a continuing declining trend for the tariff. The tariff is not as appealing as the Group first thought.
- Besides that, the competition in the solar power industry is increasingly intense as more players are entering into the industry. Considering the Group is a late starter in the industry, the Group does not possess first mover advantage in getting good tariffs.
- Thus, the Group has decided to focus for the time being its efforts on its traditional core business segments and not venture further into the solar power industry.

2. Can the Group elaborate on the proposed acquisition of PT Panghegar Energy Indonesia “PEI”?

- The Board is of the view that the Proposed Acquisition will be beneficial to and is in the best interests of the Group and its shareholders as the Proposed Acquisition will provide the Company with an additional recurring revenue stream in the longer term.
- PEI has entered into a cooperation agreement with a regional government of Indonesia to provide waste management services in certain Indonesia cities and provinces.
- The Project will be constructed and operated based on a Build-Operate-Transfer (BOT) model for a concession period of 25 years and requires a total estimated investment of US\$46.0 million. It has a capacity of receiving 1,650 tonnes of municipal waste per day and producing around 600 tonnes of Refuse Derived Fuel (“RDF”) per day.
- Upon the acquisition, the Group will have the rights to the concession. This is the first of its kind project in West Java and the Group is optimistic that more similar projects will be available for the Group’s consideration going forward. With the know-how from a pioneer

project such as the Project, the Group will have the competitive advantage to secure such projects as compared to other players.

- The Project involves separating the waste into organics and combustibles to produce RDF while recyclables (metal, plastics) and incombustibles for final disposal. Though RDF has a heat value similar to coal but it produces less pollutants and it is also one-third less costly as compared to coal. Thus, cement production companies are willing to use RDF as an alternative. PEI has signed an RDF offtake agreement with PT Indocement Tunggul Prakarsa Tbk, the biggest cement production company in Indonesia.
- Thus, the Group is able to generate revenue from both tipping fees from the incoming domestic solid waste collected, and selling of RDF.

3. Previously, the Group ventured into the waste management industry in Taiwan as well, but it did not turn out well. Will the proposed acquisition of PT Panghegar Energy Indonesia follow this path as well?

- The business model is different where the Group has to pay for the collection of the waste in Taiwan while the government of West Java, Indonesia will pay the Group tipping fees for receiving the domestic waste.
- Nonetheless, the Group is still conducting technical, legal and financial due diligence on the project, having secured rights to it by entering into the conditional SPA for the acquisition of 75% of PEI shares.

4. Why does the Group intend to venture into different market and business segments?

- The Group has traditionally focused its efforts on Environmental Systems and Water Management Services, and has over the years built up significant experience and expertise in these business segments.
- However, our core business segment involving the EPC industry has become increasingly competitive where the players would compromise with lower profit margin to secure projects. Thus, the Group has to lower its profit margin as well to compete with other players.
- The room for growth in the EPC industry is limited and the earnings are rather lumpy. Hence, it is prudent for the Group to diversify into other business segments to generate revenue for the Group instead of solely relying on EPC business segment.

5. Can the Group share on your fund-raising plan?

- As a public listed company in Singapore, the Group has several fund-raising options available to it.
- For example, for the proposed acquisition of PT Panghegar Energy Indonesia, the Group is looking to finance it with 30% of equity and 70% debt financing from the banks.
- The Group is also considering all instruments available to it in order to raise equity, such as placements, rights issue etc, as well as potential equity partner.

6. What is the Group's future business plan?

- The Group has traditionally focused its efforts on Environmental Systems and Water Management Services, and has over the years built up significant experience and expertise in these business segments.
- Going forward, the Group intends to continue leveraging on such experience and expertise to deliver advanced solutions for water and waste management systems, while pursuing municipal opportunities to generate recurring income from investments in water supply and waste projects.

- Taking into consideration the current business climate, as well as the core competencies of the Group and its management in Environmental Systems and Water Management Services, the management, with the concurrence of the Board, has determined that while the Group remains open to considering business opportunities outside the Environmental Systems and Water Management Services industry in the future, it will, at present, focus most of its efforts on its traditional core business segments.
- Nonetheless, the Group realizes that organic growth of its traditional businesses is most likely limited. Thus, the Group intends to venture into investment projects which will provide a steady recurring income stream for the Group.
- In short, our future plans can be summarized into a few phases (note that the phases are not necessarily carried out sequentially):
 - Phase 1: Operations clean up (streamlining operations, cutting down costs and rationalizing) and stabilizing the team
 - Phase 2: Focus on traditional businesses and look for opportunities to secure more investment projects
 - Phase 3: Revitalising our presence in the countries where we are not so active such as Philippines, cutting down subsidiaries which are not operating well
 - Phase 4: Venturing into new markets

7. When would the Group be turning profitable?

- Currently, the CEO is streamlining the operations, cutting down the costs and rationalizing the organization to improve the process and cost efficiency.
- The Group will continue leveraging on such experience and expertise to obtain contracts for water and waste management systems, while pursuing municipal opportunities to generate recurring income from investments in water supply and waste projects as well as keeping an eye on business opportunities outside the Environmental Systems and Water Management Services industry.
- Besides that, the Group is also further expanding its operations into Vietnam which will, barring unforeseen circumstances, present the Group with huge business opportunities in the water industry.
- The Group hopes that these initiatives will become fruitful and eventually bring the Group back to profitability.

By Order of the Board

Poh Kok Hong
 Executive Director and Chief Executive Officer
 18 December 2019