



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

**PROPOSED DISPOSAL OF 100% OF THE CAPITAL CONTRIBUTION OF
DARCO REMEDIATION TECHNOLOGIES INC**

1. INTRODUCTION

The board of directors (the “**Board**” or “**Directors**”) of Darco Water Technologies Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) wishes to announce that the Company’s subsidiary, WWMG Environmental Sdn. Bhd. (the “**Seller**”) has on 26 November 2020 entered into a capital contribution purchase agreement (the “**Agreement**”) with Lin Chiang Ya (林江涯) (the “**Purchaser**”) in respect of the proposed disposal by the Seller of all of the capital contribution owned by the Seller in Darco Remediation Technologies Inc. (“**DRT**”) on the terms and subject to the conditions of the Agreement (the “**Proposed Disposal**”).

In this announcement, unless otherwise stated, the exchange rate applied by the Group for conversions of NT\$ into S\$ is NT\$21.1226 : S\$1.0000, and for conversions of US\$ into S\$ is US\$0.7182 : S\$1.0000.

2. INFORMATION ON THE PROPOSED DISPOSAL

The information on the Purchaser was provided by the Purchaser and/or extracted from publicly available sources. In respect of such information, the Company and the Directors have not independently verified the accuracy and correctness of the same and the Company’s responsibility is limited to the proper extraction and reproduction herein in the context that the information is being disclosed in this announcement.

2.1 Information on DRT

DRT is a company organised and existing under the laws of the Republic of China with its registered office at No. 668-1, Fuguo Rd., Taoyuan City, Taiwan (R.O.C.). The total authorised and fully paid capital contribution of DRT is NT\$10,000,000 (equivalent to approximately S\$473,427) (the “**Capital Contribution**”). The core business of DRT is in the design and fabrication of water treatment systems as well as the provision of consultancy services in relation to such business and solid waste disposal treatment.

As of the date of this announcement, the Company, indirectly through its subsidiary, the Seller, owns all of the Capital Contribution of DRT.



Based on the unaudited financial statements of DRT as at 30 June 2020, the book value and net tangible asset (“NTA”) value for DRT was approximately negative NT\$35,369,019 (or equivalent to approximately S\$1,674,463) and the net profits of DRT for the half year ended 30 June 2020 was NT\$189,213 (or equivalent to approximately S\$8,958). Based on the book value of DRT as set out above, the aggregate value of the actual and deemed consideration (i.e. actual consideration being the sum of US\$1.00 and deemed consideration being the sum of US\$150,000 proposed to be paid to reduce the liabilities of DRT as well as the waiver of loans due from DRT to the Group of a net amount of S\$1,232,733) to be given of approximately S\$1,441,590 represents a deficit of approximately S\$232,873 over the book value of DRT, and the estimated net gain on disposal of DRT is approximately S\$232,873.

The open market value of the Capital Contribution is not available as the shares of DRT are not publicly traded.

2.2 Information on the Purchaser

The Purchaser is an unrelated third party who was a joint venture partner for one of the Company’s previous build-operate-transfer projects in Taiwan.

There is no connection (including business relationship) between the Company, the Seller, DRT, each of their directors and their substantial shareholders, with the Purchaser, its directors and its substantial shareholders.

2.3 Rationale for and Benefits of the Proposed Disposal

The decision to undertake the Proposed Disposal arises from a strategic review of the financial position, operational needs, long-term strategy and direction of the Group, as well as after taking into account the longer term business prospects of DRT. Pursuant to such a strategic review, the Company is of the view that it would be beneficial to the Group and its shareholders to dispose of DRT, particularly in light of the fact that DRT had generated losses in the past two financial years and is expected to continue to generate losses in the coming financial years notwithstanding that it had recorded insignificant net profits of NT\$189,213 (or equivalent to approximately S\$8,958) for the half-year ended 30 June 2020. Retaining DRT as a subsidiary within the Group would also result in the Group incurring further costs and liabilities. Hence, the Proposed Disposal will also strengthen the balance sheet of the Group.

For the reasons stated above and after having considered the various options and offers available to the Company, the Board has determined that it is in the best interests of the Company to dispose of DRT to the Purchaser, who is an unrelated third party purchaser.

2.4 Principal terms of the Agreement

2.4.1 Overview of the Proposed Disposal

Subject to the terms and conditions of the Agreement, the Seller shall sell, assign, transfer and deliver to the Purchaser, and the Purchaser shall purchase, acquire and receive from the Seller the Capital



Contribution free and clear from any and all trusts, pledge or encumbrances or security interest of any kind (or any agreement or commitment to create any of the same), along with all the rights vested therein as of the Closing Date (as defined herein).

2.4.2 Consideration

Pursuant to the terms and conditions of the Agreement, the purchase price for the Capital Contribution shall be (i) US\$1.00 (the “**Consideration**”); and (ii) as based on the unaudited financial statements of DRT as at 30 June 2020, the assets of DRT are insufficient to set off its liabilities, the Seller agrees to pay to the Purchaser a subsidy amount of US\$150,000 (or equivalent to approximately S\$208,858) (the “**Subsidy Amount**”) for the sale of the Capital Contribution, such Subsidy Amount to be used to pay off all the debt liabilities of DRT.

The Subsidy Amount shall be paid as follows: (i) within 7 days after the date of the Agreement, the Seller shall wire 30% of the Subsidy Amount to the account specified by the Purchaser; (ii) within 7 days after the change of the company registration of DRT is completed, the Seller shall wire 50% of the Subsidy Amount to the account specified by the Purchaser; and (iii) after the Purchaser procures DRT to cease to use the name and/or any trademark of the Group and its affiliates and to complete the procedures as set out in the Agreement, the Seller shall wire the balance of the Subsidy Amount to the account specified by the Purchaser.

The Consideration and the Subsidy Amount were arrived at on a willing-buyer and willing-seller basis, taking into account, among other things, the following factors:

- (a) the fact that DRT has a negative net tangible assets value;
- (b) the historical operating track record and financial performance of DRT, particularly the fact that DRT has generated losses in the past two financial years and is expected to continue to generate losses in the coming financial years notwithstanding that it had recorded insignificant net profits of NT\$189,213 (or equivalent to approximately S\$8,958) for the half-year ended 30 June 2020; and
- (c) the rationale and benefits to the Company for the Proposed Disposal as set out in Paragraph 2.3 of this announcement.

Under the terms of the Proposed Disposal, the Company will also waive all receivables owing from DRT to the Group (which are mainly past loans extended from DRT to the Group amounting to S\$1,527,493). At the same time, all payables due from the Group to DRT amounting to S\$294,760 will also be waived (collectively, the “**Waivers**”).

Based on the book value of DRT as set out above, the aggregate value of the actual and deemed consideration (i.e. actual consideration being the sum of US\$1.00 and deemed consideration being the sum of US\$150,000 proposed to be paid to reduce the liabilities of DRT as well as the waiver of loans due from DRT to the Group of a net amount of S\$1,232,733) to be given of approximately S\$1,441,590, the estimated net gain on disposal of DRT is approximately S\$232,873.

The Subsidy Amount will be funded by internal resources of the Company.



2.4.3 Conditions Precedent

Closing of the sale and purchase of the Capital Contribution (“**Closing**”) is subject to the fulfillment or waiver, on or before the Closing Date (as defined herein), of *inter alia*, the following conditions:

- (a) the Purchaser shall have obtained all authorizations, consents, orders and approvals of all governmental authorities and all third party consents necessary for the consummation of the transactions contemplated by the Agreement, including, without limitation, the Investment Commission for the purchase of the Capital Contribution by the Purchaser;
- (b) the Purchaser shall have obtained all necessary authorizations, consents, and approvals as required under applicable laws and regulations for the consummation of the transactions contemplated by the Agreement; and;
- (c) the representations and warranties set forth in the Agreement shall be true and correct in all material respects on and as of the date of the Agreement and on and as of the Closing Date (as defined herein) with the same effect as though such representations and warranties had been made as of the Closing Date (as defined herein);
- (d) the Seller shall have obtained all authorizations, consents, orders and approvals of all governmental authorities and all third party consents necessary for the consummation of the transactions contemplated by the Agreement, including but not limited to the approval issued by the Investment Commission for the sale of the Capital Contribution by the Seller; and
- (e) the Seller shall have obtained all necessary authorizations, consents, approvals and corporate actions as required under applicable laws and regulations for the consummation of the transactions contemplated by the Agreement, including but not limited to the board of directors approval from the Seller (immediate holding company), Darco Water System Sdn Bhd (penultimate holding company) and Darco Water Technologies Ltd. (ultimate holding company),

(collectively, the “**Conditions Precedent**”).

2.4.4 Closing

Subject to the fulfillment of the Conditions Precedent and the terms and conditions as set forth in the Agreement, the Closing shall be held at the place as may be agreed upon by the parties on the third day after receiving the approval issued by the Investment Commission (the “**Closing Date**”).

2.4.5 Trademark and Name

After 12 months from the Closing Date, the Purchaser shall procure DRT to cease to use the name and/or any trademark of the Group and its affiliates immediately, and shall complete the necessary procedures of registration for company name or rights of trademark change.

2.4.6 Corporate Guarantee

Any corporate guarantee prior to the Agreement provided by the Seller for DRT shall be assumed by the Purchaser upon the completion of application of change of company registration in accordance with the Agreement, and the Seller will cease to be responsible for all such guarantees. If any such corporate guarantee is discovered after the completion of application of change of company registration, the Seller and the Purchaser shall complete all such legal procedures and requirements immediately for the Purchaser to assume these corporate guarantees.

3. **RELATIVE FIGURES UNDER RULE 1006**

Based on the latest announced consolidated financial statements of the Group for the half year ended 30 June 2020 (“1H2020”), the relative figures of the Proposed Disposal as computed on the bases set out in Rule 1006 of the Listing Manual of the Singapore Exchange Securities Trading Limited (the “SGX-ST”) are as follows:

Rule 1006 Bases of calculation	Relative figure %
(a) The net asset value of the assets to be disposed of, as compared with the Group’s net asset value	- 0.56 ⁽¹⁾
(b) The net profits/loss attributable to the assets acquired or disposed of, compared with the Group’s net profits/loss	- 0.48 ⁽²⁾
(c) The aggregate value of the consideration given or received, compared with the Company’s market capitalisation based on the total number of issued shares excluding treasury shares	10.24 ⁽³⁾
(d) The number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue	Not applicable ⁽⁴⁾
(e) The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Group’s proved and probable reserves	Not applicable ⁽⁵⁾

Notes:

- (1) Based on the net liabilities value of the Capital Contribution of approximately S\$232,873 and the Group’s net asset value of approximately S\$41,217,000, as at 30 June 2020.
- (2) Based on the unaudited net profits attributable to the Capital Contribution of approximately NT\$189,213 (or equivalent to approximately S\$8,958) for the six-month period ended 30 June 2020 and the Group’s unaudited net loss of approximately

S\$1,857,000 for the six-month period ended 30 June 2020. Net profit/loss is defined to be profit or loss before income tax, minority interests and extraordinary items.

- (3) Based on the aggregate value of the actual and deemed consideration (i.e. actual consideration being the sum of US\$1.00 and deemed consideration being the sum of US\$150,000 proposed to be paid to reduce the liabilities of DRT as well as the waiver of loans due from DRT to the Group of a net amount of S\$1,232,733) to be given of approximately S\$1,441,590. The market capitalisation of the Company was computed based on its existing share capital of 93,831,492 shares in the capital of the Company (excluding treasury shares) (the “Shares”) and the volume weighted average price of S\$0.15 per Share on 23 October 2020 (being the last market day on which the Shares were traded preceding the date of the Agreement). As such the market capitalisation for the purposes of the Proposed Disposal is S\$14,074,724.
- (4) Rule 1006(d) is not applicable to a disposal of assets.
- (5) Rule 1006(e) is not applicable as the Company is not a mineral, oil and gas company.

Under Chapter 10 of the Listing Manual of the SGX-ST, where any relative figure computed on the bases set out in Rule 1006 exceeds 5% but does not exceed 20%, the transaction shall constitute a “discloseable transaction” for the purposes of Chapter 10 of the Listing Manual of the SGX-ST. Based on the relevant figures computed under Rule 1006 of the Listing Manual of the SGX-ST, as the relative figures under Rules 1006(a), 1006(b) and 1006(c) exceed 5% but do not exceed 20%, and the Proposed Disposal will result in a gain on disposal of approximately S\$232,873, the Proposed Disposal therefore constitutes a “discloseable transaction” under the provisions of Rule 1006 and paragraph 4.4 of Practice Note 10.1 of the Listing Manual of the SGX-ST.

4. FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL

4.1 Bases and assumptions

The following are presented purely for illustrative purposes only and are neither indicative nor do they represent the actual future financial situation or any projection of the financial performance or position of the Group following completion of the Proposed Disposal. The financial effects of the Proposed Disposal on the Company as set out below are based on the latest audited consolidated financial statements of the Group for the financial year ended 31 December 2019 (“FY2019”), as well as the following bases and key assumptions:

- (a) the financial effects of the Proposed Disposal on the Group’s NTA per Share are computed based on the assumption that the Proposed Disposal was completed on 31 December 2019;
- (b) the financial effects of the Proposed Disposal on the Group’s earnings per Share (“EPS”) are computed based on the assumption that the Proposed Disposal was completed on 1 January 2019;
- (c) the expenses in connection with the Proposed Disposal are disregarded for the purpose of calculating the financial effects; and
- (d) save as set out above, there have not been any adjustments for the impact of any other transactions or events other than the Proposed Disposal.

4.2 NTA per Share

	Before the Proposed Disposal	After the Proposed Disposal
NTA (S\$'000)	38,837	39,062
Number of Shares	93,831,492	93,831,492
NTA per Share (S\$ cents)	41.39	41.63

4.3 EPS

	Before the Proposed Disposal	After the Proposed Disposal
Profit attributable to Shareholders (S\$'000)	(8,829)	(8,613)
Number of Shares	93,831,492	93,831,492
EPS (S\$ cents)	(9.409)	(9.179)

5. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

None of the Directors or controlling Shareholders of the Company and their respective associates has any interests, direct or indirect, in the Proposed Disposal, other than through their respective shareholding interests in the Company, if any.

6. SERVICE CONTRACTS

No person is proposed to be appointed to the Board in connection with the Proposed Disposal, and no director's service contract in relation to the Company is proposed to be entered into between the Company and any such person in connection with the Proposed Disposal.

7. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the Agreement will be made available for inspection during normal business hours at the registered office of the Company at Harvest@Woodlands, 280 Woodlands Industrial Park E5, #09-36 Singapore 757322 for a period of three (3) months from the date of this announcement.

8. FURTHER ANNOUNCEMENTS

The Company will make further announcements on the Proposed Disposal as and when there are material developments.

9. RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this announcement (save for the information on the Purchaser in paragraph 2.2 of this announcement) and confirm after making all reasonable enquiries that to the best of their knowledge and belief, this announcement constitutes full and true disclosure of all material facts about the Proposed Disposal and the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this announcement misleading (save that in respect of the information on the Purchaser in paragraph 2.2 of this announcement, such information is given based on information available to the Company as at the date of this announcement and is subject to further due diligence investigation and verification). Where information in this announcement has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this announcement in its proper form and context.

10. CAUTION IN TRADING

Shareholders and potential investors are advised to exercise caution in trading their Shares as there is no certainty or assurance as at the date of this announcement that the Proposed Disposal will be completed or that no changes will be made to the terms thereof. The Company will make the necessary announcements when there are further developments on the Proposed Disposal. Shareholders are advised to read this announcement and any further announcements by the Company carefully, and should consult their stock brokers, bank managers, solicitors or other professional advisors if they have any doubt about the actions they should take.

BY ORDER OF THE BOARD

Poh Kok Hong
Executive Director and Chief Executive Officer

26 November 2020