

DARCO WATER TECHNOLOGIES LIMITED

(Company Registration No. 200106732C)

(Incorporated in the Republic of Singapore)

PROPOSED ACQUISITION OF 12% EQUITY INTEREST IN THE REGISTERED CAPITAL OF WUHAN KAIDI WATER SERVICES CO., LTD. (武汉凯迪水务有限公司)

1. INTRODUCTION

- 1.1 The board of directors ("**Board**" and "**Directors**" respectively) of Darco Water Technologies Limited ("**Company**", together with its subsidiaries, the "**Group**") is pleased to announce that the Company has on 16 June 2017 entered into a conditional sale and purchase agreement ("**SPA**") with Hong Kong Meidi Investments Holdings Co., Ltd. (香港美地投资(控股)有限公司) as the vendor ("**Vendor**") in respect of the proposed acquisition by the Company of 12% of the total equity interest ("**12% Equity Interest**") in the registered capital of Wuhan Kaidi Water Services Co., Ltd. (武汉凯迪水务有限公司) (the "**Target**") on the terms of the SPA ("**Proposed Acquisition**").
- 1.2 The Proposed Acquisition is subject to, *inter alia*, the approval of the shareholders of the Company ("**Shareholders**") at an extraordinary general meeting of the Company to be convened ("**EGM**") in accordance with Chapters 8 and 10 of the Listing Manual ("**Listing Manual**") of the Singapore Exchange Securities Trading Limited ("**SGX-ST**").

2. INFORMATION ON THE VENDOR AND THE TARGET

2.1 The Target

- 2.1.1 Based on information provided to the Company by the Vendors, the Target is a water treatment and management specialist in the People's Republic of China ("**PRC**"). Its business involves the provision of comprehensive and integrated engineering solutions for water purification, water supply and wastewater treatment systems. These solutions include the designing, procurement, installation, commissioning and management of water purification, water supply and wastewater treatment systems and facilities.
- 2.1.2 The Target has 23 years of track record of supplying water and waste treatment systems and has carried out over 600 projects to-date. The Target presently has 22 ongoing projects in the PRC covering 14 provinces in the PRC. This includes the construction of a seawater desalination system for a 2*1000MW ultra-supercritical coal-fired power generating plant for China Resources Power Holdings Co., Ltd (Haifeng branch). The total contractual value of the PRC projects amount to approximately RMB487.54 million. Apart from projects in the PRC, the Target also has seven (7) ongoing overseas projects in countries such as Indonesia, Vietnam, Turkey and India. The total contractual value of these overseas projects amount to approximately RMB65.35 million.
- 2.1.3 Based on the audited financial results of the Target for the financial year ended 31 December 2016, the net profits of the Target for the full year ended 31 December 2016 was RMB9,140,000 (or approximately S\$1,854,000 based on the exchange rate RMB1:S\$0.2028 as at 15 June 2017 as extracted from www.oanda.com (the "**Illustrative Exchange Rate**"). As such, the net profits attributable to the 12% Equity Interest amounted to RMB1,097,000 (or approximately S\$222,000 based on the Illustrative Exchange Rate).

2.1.4 Based on the audited financial results of the Target for the financial year ended 31 December 2016, the net tangible asset value of the 12% Equity Interest is approximately RMB6,918,000 (or approximately S\$1,403,000 based on the Illustrative Exchange Rate).

2.2 The Vendor

The Vendor is an investment holding company incorporated in Hong Kong with interests in property and infrastructure development. The director of the Vendor is Mr Chang Yu-Wen. As at the date of this announcement, Wah Lee Industrial Corp. ("**Wah Lee**") and Jilead Technology Co., Ltd. ("**Jilead**") own approximately 80% and 20% of the Vendor's issued share capital respectively.

The Vendor currently holds 12% of the equity interest in the registered capital of the Target.

3. KEY TERMS OF THE PROPOSED ACQUISITION

3.1 Consideration

3.1.1 The consideration for the purchase of the 12% Equity Interest shall be S\$1,912,445.50 (the "**Consideration**"). The Consideration shall be satisfied solely by the allotment and issue by the Company to the Vendor (or such other person(s) as may be specified by the Vendor) of 3,824,891 new ordinary shares ("**Shares**") in the share capital of the Company ("**Consideration Shares**") at an issue price of S\$0.50 per Consideration Share.

As at the date of this announcement, the Vendor has confirmed that the 3,824,891 Consideration Shares are to be issued and allotted to Wah Lee and Ji Lead in the following proportion:

	Number of Consideration Shares	% of existing and issued share capital of the Company ⁽¹⁾
Wah Lee ⁽²⁾	3,059,913	5.34
Jilead ⁽³⁾	764,978	1.33
Total	3,824,891	6.67

Notes:

- (1) Computed on the basis of 57,326,601 issued Shares (the Company does not have treasury shares) as at the date of this announcement.
- (2) As at the date of this announcement, Wah Lee holds 4,589,869 Shares, representing approximately 8.01% of existing issued and paid-up share capital of the Company.
- (3) As at the date of this announcement, Jilead holds 1,147,467 Shares, representing approximately 2.00% of existing issued and paid-up share capital of the Company.

As Wah Lee is a substantial shareholder of the Company, any issuance and allotment of the Consideration Shares to Wah Lee shall be subject to Shareholders' approval pursuant to Rule 812 (1) and 812(2) of the Listing Manual.

3.1.2 The Consideration Shares, when allotted and issued to the Vendor (or such other person(s) as may be specified by the Vendor), shall be free from encumbrances and shall rank *pari passu* in all respects with the existing Shares as at the date of issuance of the Consideration Shares.

- 3.1.3 The 3,824,891 Consideration Shares will represent approximately 6.25% of the enlarged Share capital of the Company comprising 61,151,492 Shares.
- 3.1.4 Based on the volume weighted average price of the Shares on the SGX-ST on 8 June 2017 (being the last full market day on which the Shares were traded prior to the day on which the SPA was executed as no trades were done on 9, 12, 13, 14 and 15 June 2017) of approximately S\$0.50 (the "**VWAP**"), the issue price per Consideration Share of S\$0.50 is the same as the VWAP. There will be no actual cash outlay from the Company to the Vendors given that the Consideration shall be entirely satisfied by way of the issuance of the Consideration Shares. The Company intends to seek specific Shareholders' approval for the issuance of the Consideration Shares at the EGM to be convened.
- 3.1.5 The Consideration was agreed on a willing-buyer and willing-seller basis after arms' length negotiations. In arriving at the Consideration, the Company has considered, *inter alia*, (a) the respective and combined market positions of the Company and the Target, (b) the quality of the respective assets and business conditions of the Company and the Target, (c) the respective financial positions of the Company and the Target, (d) the future benefits and synergies expected to be created as a result of the Proposed Acquisition as set out in paragraph 4 (Rationale for the Proposed Acquisition and Benefits to the Group) below, and (e) current prevailing industry and market conditions.

3.2 **Conditions Precedent**

Completion of the sale and purchase of the 12% Equity Interest under the SPA ("**Completion**") is conditional upon various conditions having been fulfilled (unless otherwise waived), including:

- (a) Shareholders' Approval: the approval of the Shareholders at an EGM for the following matters, and such approval not having been withdrawn or revoked as at the Completion date:
- (i) the Proposed Acquisition (if required); and
 - (ii) the allotment and issue of the Consideration Shares by the Company to the Vendor (or such other person(s) as may be specified by the Vendor);
- (b) Independent Shareholders' Approval for the Whitewash Resolution: (if applicable) the approval of the majority of the Shareholders who are not involved in or interested in the Proposed Acquisition ("**Independent Shareholders**") being obtained at an EGM for the whitewash resolution ("**Whitewash Resolution**"), being a resolution approved by a majority of the Independent Shareholders in a general meeting of the Company in accordance with the requirements set out in Appendix 1 of the Singapore Code on Take-Overs and Mergers ("**Code**") in respect of the waiver of their rights to receive a mandatory takeover offer from the Vendor and parties acting in concert with the Vendor who would incur an obligation to make a mandatory takeover offer under Rule 14 of the Code for all of the Shares not already owned by the Vendor and persons acting in concert with the Vendor as a result of the Proposed Acquisition and the transactions contemplated under the SPA, provided that the Vendor and any persons not being Independent Shareholders abstain from voting on such Whitewash Resolution;

- (c) SIC Waiver: (if applicable) the grant by the Securities Industry Council of Singapore ("**SIC**") of a waiver (such waiver not having been withdrawn or revoked as at the Completion date) to the Vendor and parties acting in concert with the Vendor, of their obligation to make a mandatory offer under Rule 14 of the Code for the Shares not held by the Vendor and their concert parties, and from having to comply with the requirements of Rule 14 of the Code upon Completion and the allotment and issue of the Consideration Shares to the Vendor (or such other person(s) as may be specified by the Vendor) in accordance with the SPA and if such waiver is subject to any condition or restriction imposed by the SIC, such condition and/or restriction being reasonably acceptable to the Vendor and the Company;
- (d) SGX-ST Approval for the Circular: the approval of the SGX-ST for the circular to be issued to Shareholders in relation to the Proposed Acquisition, and if such approval is subject to any condition or restriction imposed by the SGX-ST, such condition and/or restriction being reasonably acceptable to the Vendor and the Company;
- (e) SGX-ST Approval for Listing and Quotation: the approval-in-principle from the SGX-ST having been obtained for the listing and quotation of the Consideration Shares on the Main Board of the SGX-ST, and such approval not having been withdrawn or revoked, and if such approval is subject to any condition or restriction imposed by the SGX-ST, such condition and/or restriction being acceptable to the Company and the Vendor;
- (f) Approvals and Consents for the Proposed Acquisition: all consents and approvals required under all applicable laws and relevant agreements to give effect to the Proposed Acquisition and for the purpose of performing the Proposed Acquisition (including, without limitation, such waivers as may be necessary of terms which would otherwise constitute a default under any instrument, contract, document or agreement to which the Vendor or the Target is a party or by which the Vendor or the Target or any of their assets are bound as well as such consents as may be necessary pursuant to the relevant laws and regulations, if any, for the Vendor (or such other person(s) as may be specified by the Vendor) to be the holder of the Consideration Shares) being obtained and such consents, approvals and waivers not having been amended or revoked and remaining in full force and effect up to and including the Completion date and where any consent or approval is subject to conditions, such conditions being satisfactory to the Company in its sole and absolute discretion;
- (g) No Breach: the Proposed Acquisition not being prohibited by and will not result in a breach of, any statute, order, rule, regulation, directive, guideline or request promulgated by, or any judgement or decree of, any legislative, executive, judicial or regulatory body or authority in Singapore, the PRC or any other jurisdiction affecting the Target, the Company or the Vendor;
- (h) No Material Adverse Change: there being no changes to the business, financial conditions or operations of the Target or the Company since the date of the SPA that would in the reasonable opinion of (i) (with respect to the Target) the Company, or (ii) (with respect to the Company) the Vendor (as the case may be) be likely to have a material adverse effect on the turnover, profitability, financial position or prospects of the Target or the Company (as the case may be);
- (i) Warranties: the representations, warranties and undertakings made by the Vendor and the Company contained or referred to in the SPA remaining true, accurate and correct in all respects; and
- (j) No Event of Default: there being no event of default or potential event of default on any existing debt of the Target.

3.3 Long Stop Date

If any of the conditions precedent set out in paragraph 3.2 above is not satisfied or is not waived by the Company and/or the Vendor (as the case may be) on or before such date falling 90 days from the date of the SPA, or such other date as may be mutually agreed by the Company and the Vendor in writing, the SPA shall terminate, save for certain surviving clauses which relate to, *inter alia*, confidentiality and costs.

3.4 Completion Date

The Completion date for the Proposed Acquisition shall be a date falling five (5) business days after the date on which the conditions precedent set out in paragraph 3.2 above have been fulfilled or waived by the Company and/or the Vendor (as the case may be) pursuant to the SPA, or such other date as the Company and the Vendor may mutually agree in writing.

Following the completion of the Proposed Acquisition, the Company shall hold 72% of the equity interest in the registered capital of the Target.

4. RATIONALE FOR THE PROPOSED ACQUISITION AND BENEFITS TO THE GROUP

4.1 The Board is of the view that the Proposed Acquisition will be beneficial to and is in the best interests of the Company and its Shareholders as the Proposed Acquisition enables the Group to remain competitive in the PRC market. The Group's competitive edge in the market lies with the strengths of its management and its technology. Considering the changes in the competitive landscape of the PRC market, the Group has engaged in the Proposed Acquisition to be more localised in order to compete effectively in the PRC by relying on the Target's permits and licenses which are required to bid for projects in the PRC.

4.2 Additionally, both the Group and the Target will be able to leverage on each other's strengths, following the completion of the Proposed Acquisition. The Group's strength lies with its service capabilities, having approximately 350 technicians and engineers fully engaged in helping customers operate and run systems round the clock. On the other hand, the Target has traditionally adopted a strategy of outsourcing the manufacturing and assembly of water systems, which allows it to keep its internal workforce lean and overheads low so as to be competitive on pricing.

5. RELATIVE FIGURES PURSUANT TO RULE 1006 OF THE LISTING MANUAL

5.1 Based on the audited consolidated financial statements for the Group for the financial year ended 31 December 2016 ("**FY2016**") (being the latest announced consolidated accounts of the Group) ("**Audited FY2016 Results**"), the relative figures computed on the bases set out in Rule 1006 of the Listing Manual are as follows:

Listing Rule ⁽¹⁾	Bases	Relative Figures (%)
1006(b)	The net profits/(loss) attributable to the 12% Equity Interest, compared with the Group's net profits/(loss)	5.94 ⁽²⁾
1006(c)	The aggregate value of the Consideration Shares compared with the market capitalisation of the Company	8.77 ⁽³⁾

Listing Rule⁽¹⁾	Bases	Relative Figures (%)
1006(d)	The number of Consideration Shares to be issued by the Company as Consideration compared with the number of Shares of the Company previously in issue	6.67 ⁽⁴⁾

Notes:

- (1) Rule 1006 (a) and (e) are not relevant to the Proposed Acquisition.
- (2) Based on the audited financial results of the Target for the financial year ended 31 December 2016, the net profits of the Target for the full year ended 31 December 2016 was RMB9,140,000 (or approximately S\$1,854,000 based on the Illustrative Exchange Rate). As such, the net profits attributable to the 12% Equity Interest amounted to RMB1,097,000 (approximately S\$222,000 based on the Illustrative Exchange Rate). Based on the Audited FY2016 Results, the Group had a net profit of S\$3,738,000 for the full year ended 31 December 2016.
- (3) In accordance with Rule 1003(3) of the Listing Manual, for the purposes of computing the aggregate value of the Consideration, which is in the form of the Consideration Shares, the higher of the following two values shall apply:
 - (A) the market value of the Consideration Shares (based on the volume weighted average price of the Shares on the SGX-ST on 8 June 2017, being the last full market day on which the Shares were traded prior to the day on which the SPA was executed as no trades were done on 9, 12, 13, 14 and 15 June 2017) which amounted to S\$1,912,446; and
 - (B) the net asset value of the Consideration Shares (based on the Audited FY2016 Results) which amounted to S\$2,513,275.

The Company's market capitalisation (based on an issued share capital of 57,326,631 Shares; the Company does not have treasury shares) and the volume weighted average price of the Shares on the SGX-ST on 8 June 2017, being the last full market day on which the Shares were traded prior to the day on which the SPA was executed) is S\$28,663,315.

- (4) Based on a total number of 3,824,891 Consideration Shares proposed to be allotted and issued to the Vendor (or such other person(s) as may be specified by the Vendor), compared with 57,326,601 Shares (the Company does not have treasury shares) in issue as at 16 June 2017, being the date of the SPA.
- 5.2 Under Chapter 10 of the Listing Manual, 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. Based on the relevant figures computed under Rule 1006 of the Listing Manual, as the relative figures under Rule 1006(b), 1006 (c) and 1006(d) exceed 5% but do not exceed 20%, the Proposed Acquisition therefore constitutes a "discloseable transaction" under the provisions of Rule 1010 of the Listing Manual.

6. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

6.1 **For illustrative purposes only**, the financial effects of the Proposed Acquisition on the Company as set out below are prepared based on the Audited FY2016 Results and subject to the following key assumptions:

- (a) the effect of the Proposed Acquisition on the Company's net tangible assets ("**NTA**") per Share for FY2016 is based on the assumption that the Proposed Acquisition had been effected at the end of FY2016; and
- (b) the effect of the Proposed Acquisition on the Company's earnings per Share ("**EPS**") for FY2016 is based on the assumption that the Proposed Acquisition had been effected at the beginning of FY2016.

6.2 The financial effects as set out below, which are based on the assumptions set out in paragraph 6.1, are theoretical in nature and are therefore not necessarily indicative of the future financial position and earnings of the Company or the Group.

(a) NTA per Share

	Before Proposed Acquisition	After Proposed Acquisition
NTA (S\$ '000)	24,891	26,294
Number of Shares	52,326,631 ⁽¹⁾	56,151,522 ⁽²⁾
NTA per Share (cents)	47.57	46.83

(b) EPS

	Before Proposed Acquisition	After Proposed Acquisition
Profits attributable to Shareholders (S\$'000)	2,572	2,794
Number of Shares	46,840,077 ⁽¹⁾	50,664,968 ⁽²⁾
EPS (cents)	5.49	5.52

Notes:

- (1) The number of Shares does not include the 5,000,000 Shares which were issued to Capital Boom Limited and Robert Stone Alexander on 7 April 2017 and 3 May 2017, respectively, pursuant to the placement agreements entered into by the Company with each of the aforesaid placees (the "**CB and RS Placements**"). Please refer to the announcements released by the Company on 7 April 2017 and 3 May 2017 for details on the completion of the CB and RS Placements.
- (2) Computed on the basis of an enlarged issued Share capital of 56,151,492 Shares. This does not include the 5,000,000 Shares which were issued pursuant to the completion of the CB and RS Placements.

7. DIRECTORS' SERVICE CONTRACTS

No person is proposed to be appointed to the board of the Company in connection with the Proposed Acquisition, and no director's service contract is proposed to be entered into by the Company with any person in connection with the Proposed Acquisition.

8. SGX-ST LISTING APPROVAL

8.1 An application will be submitted by the Company to the SGX-ST to seek its approval for the listing of and quotation for the Consideration Shares on the Main Board of the SGX-ST (the "**SGX-ST Listing Approval**"). An appropriate announcement on the outcome of such application will be made by the Company in due course.

8.2 Subject to receipt of the SGX-ST Listing Approval and compliance with such conditions (if any) imposed by the SGX-ST in connection therewith, the Consideration Shares shall, following allotment and issue on the terms and subject to the conditions of the SPA, be listed and quoted on the Main Board of the SGX-ST.

9. CIRCULAR TO SHAREHOLDERS

As the Proposed Acquisition is conditional upon the Company having obtained Shareholders' approval(s), the Circular to the Shareholders containing, among others, information on the Proposed Acquisition will be despatched to Shareholders in due course.

10. INTEREST OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

Save as disclosed in this announcement:

- (a) none of the directors of the Company has any interest, direct or indirect, in the Proposed Acquisition, save through his shareholding in the Company (if any); and
- (b) to the best of the knowledge of the directors of the Company, none of the controlling Shareholders of the Company has any interest, direct or indirect, in the Proposed Acquisition, save through such Shareholders' shareholding in the Company.

11. DOCUMENTS FOR INSPECTION

Copies of the SPA are available for inspection during normal business hours at the Company's registered office at 21 Marsiling Industrial Estate Road 9 #01-03 Singapore 739175 for a period of three (3) months from the date of this announcement.

12. CAUTIONARY STATEMENT

Shareholders and potential investors are advised to exercise caution in the trading of their Shares in the Company. The Proposed Acquisition is subject to, *inter alia*, the fulfilment of the conditions of the SPA. There is no certainty and assurance as at the date of this announcement that the Proposed Acquisition will be completed or that no changes will be made to the terms thereof. Shareholders and potential investors are advised to read this announcement and any further announcements by the Company carefully. Shareholders and potential investors should consult their stockbrokers, solicitors or other professional advisors if they have any doubts about the actions they should take.

13. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in 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 Acquisition, 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. Where information in the 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 the announcement in its proper form and context.

BY ORDER OF THE BOARD

Thye Kim Meng
Chairman, Managing Director and Chief Executive Officer
16 June 2017