

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

PROPOSED PLACEMENT OF NEW ORDINARY SHARES IN THE CAPITAL OF DARCO WATER TECHNOLOGIES LIMITED (THE “PLACEMENT”)

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 intends to undertake the placement of new ordinary shares in the capital of the Company (the “**Shares**”) to Mr. Wang Zhi @ Robert Wang (the “**Placee**”).

2 THE PLACEMENT

2.1 Placement Agreement

The Company has on 20 October 2017 entered into a placement agreement (the “**Placement Agreement**”) with the Placee, 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**”), representing 29.5% Enlarged Share Capital (as defined below), at a placement price of S\$0.65 per Placement Share (the “**Placement Price**”) to the Placee.

The Company had on 16 June 2017 and 19 October 2017 announced the proposed acquisition of additional equity interest in the Company’s subsidiary, Wuhan Kaidi Water Services Co., Ltd., via one or more share swaps and also potential fund raising exercises (“**Proposed Corporate Actions**”). It is envisioned that the Proposed Corporate Actions may result in additional shares in the Company being issued, however, the number of shares to be issued and the time of the completion of such Proposed Corporate Actions cannot be determined as at the date of this announcement. As such, in respect of the Placement, the Company has negotiated with the Placee for a range in the number of Placement Shares to take into account the possible changes in the Company’s share capital, in the event any of the Proposed Corporate Actions be completed prior to the completion of the Placement, such that the Placee will hold 29.5% interest in the Enlarged Share Capital of the Company.

The “**Enlarged Share Capital**” of the Company means the share capital of the Company in the event any or all of the Proposed Corporate Actions are completed and following the Proposed Placement. The number of Placement Shares will be determined based on the Enlarged Share Capital.

In the event that any or all of the Proposed Corporate Actions only occur during the 12 months period commencing from the completion date of the Placement Agreement which results in the share capital of the Company being enlarged, the Placee shall have the option to subscribe for such additional new Shares in the Company at the Placement Price to the extent that the aggregate shareholding of the Placee (after the issuance) shall not exceed 29.5% of the Enlarged Share Capital of the Company, after taking into consideration the additional shares issued in respect of the Proposed Corporate Actions.

For the avoidance of doubt, negotiations on the Proposed Corporate Actions are ongoing and subject to contract, and there is no assurance that the Company will proceed with any of them or that the Company will complete the Proposed Corporate Actions. The Company will make necessary announcements in the event any term sheet or contract is entered into by the Company in respect of the respective Proposed Corporate Actions.

2.2 Placement Price

2.2.1 The Placement Price of S\$0.65 represents a premium of approximately 15.0% to the volume weighted average price of approximately S\$0.565 for the trades done on the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 20 October 2017, being the full market day to which the Placement Agreement was signed.

2.2.2 The Placement Price was arrived at following arm’s length negotiations between the Placee and the Company, taking into account the prevailing Share price and the financial position and prospects of the Company.

2.3 Placement Consideration

The consideration for the Placement Shares is derived by multiplying the number of Placement Shares with the Placement Price (the “**Placement Consideration**”). The Placee shall pay or procure payment to the Company a sum in the US dollars equivalent to S\$1,966,250 [(based on the average exchange rate of US\$ against SGD published by the DBS Bank Ltd, United Overseas Bank Limited and Overseas-Chinese Banking Corporation Limited on the Business Day before the signing of the Placement Agreement)] as deposit within ten (10) business days from the date of the signing of the Placement Agreement, such deposit shall be set-off from the Placement Consideration to be paid upon completion, or refunded in the event that the Listing Approval cannot be obtained and/or any of the Conditions Precedent (as defined below) is not satisfied before six (6) months after the date of the Placement Agreement, or such other date as the Placee and the Company may agree (the “**Long Stop Date**”).

2.4 Ranking

The Placement Shares when issued will rank in all respects *pari passu* with the existing issued Shares and be free from all pre-emption rights, charges, liens and other encumbrances and with all rights and benefits attaching thereto save that they will not rank for any dividend, rights, allotments or other distributions, the Record Date of which falls on or before the completion of the Placement. For the purposes of this announcement, “**Record Date**” means the date fixed by the Company for the purposes of determining entitlements to dividends or other distributions to or rights of holders of Shares.

2.5 No Placement Agent

No placement agent has been appointed in respect of the Placement.

2.6 Referral Agreement

The Company has also entered into a referral agreement with Ms. Lee Fie Jye dated 25 May 2017 in respect of Ms. Lee Fie Jye’s referral of the Placee to the Company. A referral fee of 1% of Placement Consideration (the “**Referral Fee**”) received by the Company shall be paid in cash to Ms Lee Fie Jye within thirty (30) days of the completion of the Proposed Placement.

Ms Lee is self-employed and involved in financial advisory business. Ms. Lee Fie Jye is an unrelated third-party and, save pursuant to the referral agreement, does not have any relationship with the Group, any director and substantial shareholder of the Company.

2.7 Private Placement

The offer of the Placement Shares is made pursuant to the exemption under Section 272B of the Securities and Futures Act, Chapter 289 of Singapore. Accordingly, no prospectus or offer information statement will be issued by the Company in connection with the Placement.

3 DETAILS ON THE PLACEE

- 3.1 Pursuant to the Placement Agreement and subject to the satisfaction of the Conditions Precedent (as defined below), the Placement Shares are to be issued and allotted to the Placee, resulting in the Placee not more than 29.5% of the Enlarged Share Capital of the Company. Following the completion of the Placement, the Placee shall become a controlling shareholder of the Company.
- 3.2 The Placee is an independent investor and was referred to the Company by Ms. Lee Fie Jye. Mr. Wang has more than 15 years of experience in the business of water and wastewater treatments and water supply. He is currently the Chairman of Future Investment Enterprise Limited, a company incorporated in Hong Kong which is involved in the investment and management of water supply and wastewater treatment. He is currently the majority owner of four BOT/BOO water supply and wastewater treatment projects with a total treatment capacity of 260 million litres per day and 80 million litres per day. He also has business interests in renewable energy, tourism and ecological agriculture.
- 3.3 The Placee is an unrelated third-party and does not have any relationship with the Company's directors and substantial shareholders.

4 AUTHORITY FOR THE ISSUE OF THE PLACEMENT SHARES

- 4.1 Pursuant to Rules 805 (1) of the Mainboard Rules of the Listing Manual of the SGX-ST (the "**Listing Rules**"), an issuer must obtain the prior approval of shareholders in general meeting for the issue of shares or convertible securities or the grant of options carrying rights to subscribe for shares of the issuer.
- 4.2 Accordingly, the Company intends to seek specific shareholder's approval in respect of the Placement at an extraordinary general meeting (the "**EGM**") to be convened.

5 CONDITIONS PRECEDENT

- 5.1 Completion of the Placement is conditional upon, among others, the following:
- 5.1.1 the trading of the issued Shares on the Mainboard of the SGX-ST not being suspended by the SGX-ST (other than a suspension on a temporary basis requested by the Company);
- 5.1.2 the issued Shares remaining listed on the Mainboard of the SGX-ST;
- 5.1.3 the specific approval of the Company's shareholders for the Placement having been obtained (each on terms and conditions acceptable to the Company and the Placee, each acting reasonably) and not being revoked or amended and being in full force and effect on the completion date;

- 5.1.4 the listing and quotation notice from the SGX-ST for the listing and quotation of the Placement Shares (the “**Listing Approval**”) having been obtained (on terms and conditions acceptable to the Company and the Placee, each acting reasonably) and not being revoked or amended;
 - 5.1.5 any conditions attached to the Listing Approval which is required to be fulfilled on or before the completion date, having been fulfilled on or before that date to the satisfaction of the SGX-ST unless waived by the SGX-ST;
 - 5.1.6 the Deed of Undertaking (as defined below) containing the terms set out in paragraph 5.3 duly executed by the Placee and the Loan Agreement (as defined below) containing the terms set out in paragraph 5.4 duly executed by the Placee and the Company;
 - 5.1.7 disbursement of the Loan (as defined below) within sixty (60) days from the date of the Placement Agreement, in accordance with the Loan Agreement, or within such other period and on such terms as the Placee and the Company may otherwise agree;
 - 5.1.8 the Placee and, if applicable, its nominees obtaining the necessary corporate approval(s) and approval(s) from all applicable Governmental Authorities to subscribe for the Placement Shares at the Placement Consideration in accordance with the terms of this Agreement;
 - 5.1.9 the Placement not being prohibited by any statute, order, rule, regulation or directive promulgated or issued after the date of this Agreement by any legislative, executive or regulatory body or authority of Singapore or elsewhere which is applicable to the Company or the Placee (including but not limited to the SGX-ST, the Securities Industry Council, and other governmental authorities);
 - 5.1.10 there having been, as at the completion date, no occurrence of any event nor the discovery of any fact rendering untrue or incorrect in any material respect any of the representations and warranties contained in the Placement Agreement as if they were repeated on and as of the completion date;
 - 5.1.11 the Company or the Placee or its nominee not in breach of any of the undertakings and covenants given in the Placement Agreement as at the completion date, and if any of such undertakings and covenants are required to be fulfilled on or before the completion date, such undertakings and covenants shall have been fulfilled prior to completion date; and
 - 5.1.12 there not having occurred, in the reasonable opinion of the Placee, any material adverse change, or any development reasonably likely to involve a prospective material adverse change, whether or not arising from transactions in the ordinary course of business, subsequent to the date of the Placement Agreement which, in the reasonable opinion of the Placee, is or is reasonably likely to be materially adverse in the context of the Placement or is reasonably likely to prejudice materially the success of the Placement or dealings in the Placement Shares in the primary market, (collectively, the “**Conditions Precedent**” and each a “**Condition Precedent**”).
- 5.2 In respect of the Condition Precedent set out in paragraph 5.1.2 above, the Company will be submitting an additional listing application to the SGX-ST. The Company will make the necessary announcement once the Listing Approval has been obtained from the SGX-ST.

- 5.3 In respect of the Condition Precedent set out in paragraph 5.1.6 above, the Placee shall execute a deed of undertaking (the “**Deed of Undertaking**”) pursuant to which the Placee undertakes to procure the transfer to the Company a Build-Operate-Transfer or Build-Operate-Own water treatment asset or concession (as the case may be) (“**Water Treatment Asset**”) within twenty-four (24) months from the completion date (the “**Asset Injection**”). The Deed of Undertaking shall contain the following terms:
- 5.3.1 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;
- 5.3.2 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 the Placee 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, the Placee fails to complete the transfer of the Water Treatment Asset within twenty-four (24) months from the completion date in accordance with Paragraph 5.3.1 above,
- the Placee 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 the Placee (as the case may be).
- 5.4 In respect of the Conditions Precedent set out in paragraphs 5.1.6 and 5.1.7 above, the Placee shall enter into a loan agreement with the Company (the “**Loan Agreement**”) to grant a loan of S\$4,000,000 to the Company (the “**Loan**”) to be disbursed within sixty (60) days from the date of the Placement Agreement. The Loan Agreement shall contain the following terms:
- 5.4.1 The Loan shall be used solely and exclusively for the working capital of the Company’s subsidiary, Wuhan Kaidi Water Services Co., Ltd.
- 5.4.2 The Loan shall be repayable within twenty-four (24) months from the completion date of the Placement Agreement or upon completion of the Asset Injection, whichever is earlier, and shall be subject to an interest equivalent to the Placee’s cost of fund as agreed between the Placee and the Company in the Loan Agreement.
- 5.4.3 If completion under the Placement Agreement does not take place by the Long Stop Date for whatever reason, the Company shall repay the Loan to the Placee (together with any interest accrued) in full within 14 days on demand by the Placee.
- 5.5 The detailed terms of the Deed of Undertaking and the Loan Agreement are still being negotiated. The Company will make the necessary announcements in due course.

- 5.6 If the Conditions Precedent are not satisfied on or before the Long Stop Date, the Company and the Placee shall be released and discharged from their respective obligations under the Placement Agreement, save for any rights and liabilities accrued on or prior to such termination.
- 5.7 Pursuant to the Placement Agreement, the completion date of the Placement shall be the date falling no later than five (5) business days after the date of the last of the conditions precedent in the Placement Agreement are satisfied, or such other date as the Company and the Placee may agree in writing.

6 RATIONALE FOR THE PLACEMENT

- 6.1 The Company intends to use the Net Proceeds (as defined below) from the Placement to: (i) finance the business expansion of the Company and its subsidiaries (collectively, the “**Group**”); (ii) improve its cash flow; (iii) increase working capital ; and (iv) for general corporate purposes.
- 6.2 The Directors are of the opinion that after taking into consideration the present bank facilities, the working capital available to the Group is sufficient to meet its present requirements.
- 6.3 The Directors are further of the opinion that after taking into consideration the present bank facilities and Net Proceeds of the Placement, the working capital available to the Group is sufficient to meet its present requirements.

7 USE OF PROCEEDS

- 7.1 When allotted and issued in full, the estimated net proceeds from the Placement (the “**Net Proceeds**”) after deducting expenses of approximately S\$196,000 incurred in connection with the Placement is expected to amount to approximately S\$15,396,000, in the event 23,987,726 Placement Shares are issued, or approximately S\$19,426,000 (after deducting expenses of approximately S\$237,000), in the event 30,251,151 Placement Shares are issued.
- 7.2 The Company intends to use the Net Proceeds from the Placement as follows:
- (a) approximately 30% of the Net Proceeds for working capital for engineering contracting business and expansion; and
 - (b) approximately 70% of the Net Proceeds for investment in environmental related infrastructure projects to generate recurring income.
- 7.3 The Company will make periodic announcements as to the use of the Net Proceeds from the Placement as and when such Net Proceeds from the Placement are materially disbursed and whether such use is in accordance with the stated use. Where there is any material deviation from the stated use of the Net Proceeds, the Company will announce the reason(s) for such deviation.
- 7.4 Pending the deployment of the Net Proceeds from the Placement, such Net Proceeds may be placed as short term deposits with financial institutions and/or invested in short term money markets or debt instruments or for any other purposes on a short term basis as the Directors may in their absolute discretion deem fit, from time to time.

8 FINANCIAL EFFECTS

- 8.1 As at the date of this announcement, the issued and paid up capital of the Company is S\$54,320,756 divided into 57,326,601 Shares (excluding treasury shares). For illustration purposes only, assuming that 23,987,726 Placement Shares will be issued and allotted, the share capital of the Company will increase to S\$69,716,756, consisting of 81,314,327 Shares.

8.2 The financial effects of the Placement on the Group are prepared based on the audited accounts of the Group for the financial year ended 31 December 2016 and the following assumptions:

- (i) for purposes of computing the effect of the Placement on the net tangible asset (“**NTA**”) per Share of the Group, it is assumed that the Placement had been completed on 31 December 2016; and
- (ii) for purposes of computing the effect of the Placement on the equity per Share (the “**EPS**”) of the Group, it is assumed that the Placement had been completed on 1 January 2016.

8.3 It should be noted that the financial effects set out below are for illustrative purposes only and derived based on the assumption that 23,987,726 Placement Shares will be issued and allotted, and do not purport to be an indication or a projection of the results and financial position of the Company and the Group, after completion of the Placement.

	Before the allotment and issue of 23,987,726 Placement Shares	After allotment and issue of 23,987,726 Placement Shares
Earnings attributable to Shareholders (S\$'000)	2,572	2,572
EPS (Singapore cents)	5.49	3.63
Weighted average number of Shares for calculating EPS	46,840,077	70,827,803
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NTA (S\$'000)	24,891	40,287
NTA per Share (Singapore cents)	43.42	49.54
Number of Shares for calculating NTA per Share	57,326,601	81,314,327

9 CIRCULAR TO SHAREHOLDERS

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

10 DIRECTOR'S SERVICE CONTRACT

Upon completion, the Placee shall be appointed to the Board as Deputy Executive Chairman and as Chairman of the investment committee, which shall be established by the Company in due course.

11 INTEREST OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

Save as disclosed in this announcement, none of the Directors or substantial shareholders of the Company have any interest, direct or indirect, in the Placement, save for their respective interests in the Shares.

The table below sets out the shareholdings interest of the Company's Directors and substantial shareholders before and after the completion of the Placement, assuming that 23,987,726 Placement Shares will be issued and allotted.

Name	As at the date of this announcement (Number of Shares)			Before the Proposed Placement (%)	After the Proposed Placement (%)
	Direct Interest	Deemed Interest	Total Interest		
Directors					
Thye Kim Meng	7,155,485	-	7,155,485	12.48	8.80
Heather Tan Chern Ling	8,160	-	8,160	0.01	0.01
Wang Yaoyu	-	13,387,118	13,387,118	23.35	16.46
Tay Lee Chye Lester	-	-	-	-	-
Tay Von Kian	-	-	-	-	-
Oh Chee Sien	-	-	-	-	-
Substantial Shareholders (other than Directors)					
Wang Zhi	-	-	-	-	29.50
Robert Alexander Stone	8,770,000	-	8,770,000	15.30	10.79
Wuhan Liankai Investment Co., Ltd.	13,387,118	-	13,387,118	23.35	16.46
Wah Lee Industrial Corp.	4,589,869	-	4,589,869	8.01	5.64

12 DOCUMENTS FOR INSPECTION

Copies of the Placement Agreement and the Referral Agreement are available for inspection during normal business hours at the Company's registered office at 21 Marsiling Industrial Estate Road 9, Singapore 739175 for a period of three (3) months from the date of this announcement.

13 CAUTIONARY STATEMENT

Shareholders and potential investors are advised to exercise caution in the trading of their Shares in the Company. The Placement is subject to, *inter alia*, the fulfilment of the conditions of the Placement Agreement. There is no certainty and assurance as at the date of this announcement that the Placement 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.

14 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 Placement, 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
23 October 2017