

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

PROPOSED DISPOSAL OF WHOLLY-OWNED SUBSIDIARY

1 INTRODUCTION

The Board of Directors (the “**Board**”) of Darco Water Technologies Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) refers to the announcements dated 27 July 2015 and 4 August 2015 (the “**Announcements**”) in relation to the sale and purchase agreement (the “**SPA**”) for the entire issued and paid-up capital of the Company’s wholly-owned subsidiary, Darco Engineering (Taiwan) Co., Ltd (达阔环境工程股份有限公司) (“**DET**”), signed with Chonlin Environmental Corporation Ltd. (中林环境工程股份有限公司) (the “**Purchaser**”).

All capitalised terms, unless otherwise defined or as the context otherwise requires, shall bear the meaning as ascribed thereto in the Announcements.

As disclosed in the Announcements, the Proposed Disposal constitutes a major transaction under Chapter 10 of the Listing Manual and is conditional upon, amongst other things, approval by Shareholders of the Company in an extraordinary general meeting (the “**EGM**”) or the Company having obtained a waiver from the SGX-ST to convene the EGM.

The Company wishes to announce that it has applied to the SGX-ST for a waiver of the requirement of Rule 1014(2) of the Listing Manual to seek its Shareholders’ approval for the Proposed Disposal (the “**Waiver**”) and the SGX-ST has on 8 September 2015 granted the Waiver to the Company, subject to the following:

- (a) Disclosure via SGXNet announcement of the board’s opinion that there will be no material change to the risk profile of the Group arising from the Proposed Disposal;
- (b) Disclosure via SGXNet announcement that the remaining purchase consideration of TWD 29 million (defined as the “second tranche payment” in the Company’s announcement of 27 July 2015) will be offset against part of the TWD 31 million debt owed by the Group to DET and the key details of such debt;
- (c) The Company announcing the waiver granted, the reasons for seeking the waiver and the conditions as required under Listing Rule 1007; and
- (d) Submission of a written confirmation from the Company that the waiver does not contravene any laws and regulations governing the Company and the articles of association of the Company.

2 REASONS FOR SEEKING THE WAIVER

The Company applied for the Waiver on the following grounds:

2.1 Disposal of loss-making and non-operational business

- (a) DET has been loss-making since 2009. Save for its net profit of S\$6,173,000 in the financial year ended 31 December 2013 which was due to other income arising from the waiver of inter-company loans of S\$14,000,000, the accumulated net losses of DET amounted to S\$30,306,000 from 2009 to 2014 (based on the audited accounts of DET for these years). During the same period from 2009 to 2014, the Group’s accumulated losses was S\$25,628,000 (based on the audited accounts of the Group for the said period).

- (b) DET has not contributed positively to the Group's core business in the last few years and is no longer able to serve the municipal sectors in Taiwan without massive injections of working capital.
- (c) In addition, DET has ceased operations. Existing employees of DET have either been retrenched or transferred to other subsidiaries of the Company in Taiwan. There is no cash flow for DET for its continued operations and the Company has no future plans for DET to bid for new municipal jobs or to undertake new investments in Taiwan.
- (d) Following the Proposed Disposal, the Group's core business of designing, building, operating and maintaining water management processes based on membrane, ion exchange and thermal technologies remains unchanged, to be served by other subsidiaries within the Group and in Taiwan.
- (e) The Board is of the view that the Proposed Disposal will allow the Group to rationalise its financial and capital resources since DET is loss-making and not in operation, and further investment or a continued investment in DET is unlikely to provide positive returns in the foreseeable future. The Proposed Disposal will also enable the Company to free up its resources and capital for allocation to its other profitable operations. It is reasonable to expect Shareholders not to be concerned with the Proposed Disposal of a loss-making subsidiary. As provided at paragraph 4.1 of Practice Note 10.1 of the Listing Manual, this is another key consideration in SGX-ST's assessment of whether the Proposed Disposal requires Shareholders' approval.
- (f) In view of the above, it is reasonable to expect Shareholders not to be overly concerned with the Proposed Disposal which does not affect the business of the Group. This is a key consideration in determining if DET is a non-core business or a non-core asset, as provided at paragraph 3.3.3 of Practice Note 10.1 of the Listing Manual.

2.2 No change in risk profile of the Company

The Board is of the opinion that there will be no material change to the risk profile of the Group arising from the Proposed Disposal. In addition, the Board is of the opinion that it is in the best interests of the Group to undertake the Proposed Disposal as the business is loss-making and non-operational.

2.3 Efforts of disclosure

The Company has provided all requisite information in respect of the Proposed Disposal as required under the Listing Manual through the Announcements and Shareholders' interests are unlikely to be prejudiced if there is no shareholders' meeting convened for the Proposed Disposal. Financial effects are also highlighted in the Announcements.

2.4 To expedite commercial intentions

As both the Company and the Purchaser are keen to pursue the Proposed Disposal without any delay, the Waiver sought will help to expedite both parties' commercial intentions. It is in the interest of the Company and the Shareholders to avoid incurring unnecessary costs and expenses in convening an extraordinary general meeting to vote on the Proposed Disposal.

3 **BOARD'S OPINION**

The Board confirms that there will not be any material change in the risk profile of the Company arising from the Proposal Disposal.

4 **SECOND TRANCHE PAYMENT**

The Board wishes to provide additional details on the Second Tranche Payment receivable from the Purchaser for the remaining Purchase Consideration of TWD 29 million as stated in the announcement dated 27 July 2015. As at 31 December 2014, the total amount owing by the

Group to DET was approximately TWD 36.7 million and the amount owing by DET to the Group was approximately TWD 5.6 million. This resulted in a net amount of approximately TWD 31 million owing by the Group to DET. These inter-company transactions have arisen, *inter alia*, due to advances, consultancy fees, sales of equipment between subsidiaries and subsidiaries making equipment purchases on behalf of other subsidiaries.

The Second Tranche Payment receivable by the Group from the Purchaser will be utilised to offset against part of the abovementioned TWD 31 million debt owed by the Group to DET.

5 WRITTEN CONFIRMATION TO THE SGX-ST

The Company has on 9 September 2015, submitted to the SGX-ST, the written confirmation from the Company that the Waiver does not contravene any laws and regulations governing the Company and the articles of association of the Company.

6 WAIVER FROM THE EGM

As the SGX-ST has granted the Waiver to the Company, the Company will not be convening an EGM to seek Shareholders' approval for the Proposed Disposal and accordingly, will not be despatching a circular to Shareholders in relation thereto.

7 CAUTION IN TRADING

Shareholders 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 proceed to completion. Shareholders are advised to read the Announcements, this announcement and any further announcements by the Company carefully. Shareholders should consult their stockbrokers, solicitors or other professional advisors if they have any doubts about the actions they should take.

By Order of the Board

Thye Kim Meng
Chairman, Managing Director and Chief Executive Officer
9 September 2015