

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

PROPOSED DISPOSAL OF WHOLLY-OWNED SUBSIDIARY

1 INTRODUCTION

- 1.1 The Board of Directors (the “**Board**”) of Darco Water Technologies Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) wishes to announce that the Company has on 27 July 2015 entered into a sale and purchase agreement (the “**SPA**”) with Chonlin Environmental Corporation Ltd. (中林环境工程股份有限公司) (the “**Purchaser**”).
- 1.2 Pursuant to the SPA, the Company has agreed to sell and the Purchaser has agreed to purchase the entire issued and paid-up capital (the “**Sale Shares**”) 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**”) (the “**Proposed Disposal**”).

2 INFORMATION ON DET AND THE PURCHASER

2.1 DET

DET is a private limited liability company incorporated in Taiwan in September 1998. As at the date of this announcement, DET has an issued and paid-up share capital of approximately New Taiwan Dollars (“**TWD**”) 487,000,000 comprising 48,700,000 shares, all of which have been fully paid-up.

The principal activities of DET are the designing, fabrication and installation of water and waste water pollution control engineering, air pollution control engineering, solid waste disposal treatment and incineration, noise and vibration prevention engineering, soil pollution control engineering and environmental monitoring systems. DET also participates in municipal projects and undertakes build-operate-transfer investments in Taiwan.

2.2 The Purchaser

The Purchaser is a joint venture partner in Darco Puding Wastewater Co, Ltd. (“**Darco Puding**”). Darco Puding is a special purpose vehicle set up on 16 March 2010 to enter into a build-operate-transfer contract with Taoyuan County Government, Taiwan. DET, the Purchaser and an un-related third party hold 51%, 5% and 44% respectively of Darco Puding.

Founded in 1996, the Purchaser operates as a sub-contractor in municipal water projects. The principal business of the Purchaser involves the supply, installation and maintenance of mechanical and electrical equipment used in municipal water and waste water sectors in Taiwan.

3 PRINCIPAL TERMS OF THE SPA

3.1 Purchase Consideration

The consideration for the Proposed Disposal will be satisfied in cash in the sum of TWD 30,000,000 (approximately S\$1,250,000) by the Purchaser (“**Purchase Consideration**”). The Purchase Consideration was arrived at by agreement between the Purchaser and the Company at arm’s length, on a willing buyer, willing seller basis after taking into account the net asset value of DET as at 31 December 2014 of approximately TWD38,000,000 based on the local Generally Accepted Accounting Principles (“**GAAP**”) report, and further cost incurred since then.

3.2 Payment Terms

The Purchase Consideration shall be payable in two (2) tranches as follows:

- (i) **First Tranche Payment:** Subsequent to the execution of the SPA and the approval of shareholders of the Company (“**Shareholders**”) at an extraordinary general meeting for the Proposed Disposal (“**Shareholders’ Approval**”, see Paragraph 7 below for further details), the Purchaser shall, within three (3) business days of the satisfaction of the aforementioned conditions, pay to the Company TWD 1,000,000 in cash and transfer all of its 3,300,000 shares of TWD 10 par value each in Chonlin Environmental Corporation Ltd (中谊股份有限公司) to the Company, as security for the payment of the remaining Purchase Consideration (“**Security**”);
- (ii) **Second Tranche Payment:** Within 60 days after receiving Shareholders’ Approval for the Proposed Disposal, the Company shall apply to the Investment Commission of the Ministry of Economic Affairs (经济部门投资审议委员会) of Taiwan (“**MOEAIC**”) for approval of the transfer of the Sale Shares to the Purchaser pursuant to the SPA (“**MOEAIC Approval**”). Within 180 days after receiving MOEAIC Approval, the Purchaser shall pay to the Company the remaining Purchase Consideration of TWD 29,000,000.

3.3 Completion

Completion of the Proposal Disposal occurs when the Purchaser has paid the Company the remaining Purchase Consideration of TWD 29,000,000 within 180 days after the Company receives the MOEAIC Approval, and the Company has transferred the Security back to the Purchaser.

Although completion of the Proposed Disposal will only occur within 180 days after the Company receives the MOEAIC Approval, the SPA provides that upon the remittance of the First Tranche Payment and the delivery of the Security by the Purchaser to the Company, (i) all the rights, liabilities and responsibilities associated with DET will be transferred to the Purchaser and (ii) the Purchaser shall be responsible for the management and operation of DET from thereon. From this point onwards and even before completion, the Company shall be holding the Sales Shares for the benefit of the Purchaser.

3.4 Termination

The Company and Purchaser shall unconditionally terminate the SPA if:

- (i) the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) does not issue its clearance to the Company’s circular to Shareholders for seeking the Shareholders’ Approval;
- (ii) the Proposed Disposal does not receive the Shareholders’ Approval; or
- (iii) MOEAIC does not approve of the transfer of the Sale Shares from the Company to the Purchaser.

4 RATIONALE FOR THE PROPOSED DISPOSAL

- 4.1 The Board is of the view that the Proposed Disposal is in the interests of the Company. DET has been incurring significant losses since 2009, owing to loss-making projects following the uncovering of internal fraud involving the senior management of DET. Save for its net profit of S\$6,173,000 in the financial year ended 31 December 2013 which is 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 net losses were S\$25,628,000 (based on the audited accounts of the Group for the said period).

- 4.2 The Proposed Disposal would allow the Company to rationalise its financial and capital resources since DET is loss-making and the Board is of the view that further investments 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 focus on its other profitable operations.

5 PROCEEDS FROM THE PROPOSED DISPOSAL

The net sale proceeds from the Proposed Disposal, after deducting all costs and expenses, is estimated to be approximately S\$1,250,000. The book value of DET on the Group's audited consolidated accounts as at 31 December 2014 was negative S\$1,629,000. Therefore, the excess of the net sale proceeds over the book value of DET is approximately S\$2,879,000.

Furthermore, the Group had made provisions for disputed additional tax assessment and penalties amounting to S\$1,661,000 and S\$1,768,000 respectively, as well as provisions for two (2) ongoing litigations amounting to S\$1,280,000 in DET's audited accounts as at 31 December 2014. With the Proposed Disposal, the Group shall be able to write back all these provisions to result in a gain on disposal of subsidiary. The net gain on the Proposed Disposal for the Group based on the audited consolidated financial results for the full year ended 31 December 2014 ("FY2014") is approximately S\$2,879,000.

The net sale proceeds will be used as working capital for the Company's private sector projects in Taiwan.

6 FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL

- 6.1 The proforma financial effects of the Proposed Disposal on the net tangible assets ("NTA") per share and the earnings per share ("EPS") of the Group are set out below. The proforma financial effects have been prepared based on the audited consolidated financial results of the Group for FY2014. The following are purely for illustrative purpose only and are therefore not indicative of the actual financial position of the Group after completion of the Proposed Disposal.

6.2 NTA

For illustrative purpose only, the proforma financial effects of the Proposed Disposal on the Group's NTA per share, assuming that the Proposed Disposal had been completed on 31 December 2014, being the end of the most recently completed FY2014, are set out below:

	Before Proposed Disposal	After Proposed Disposal
NTA (S\$ '000)	6,102	8,981
Number of shares ⁽¹⁾	276,684,812	276,684,812
NTA per share (cents)	2.2	3.2

Notes:

- (1) The number of shares does not include the 387,358,736 rights shares which were issued on 5 March 2015.

6.3 EPS

For illustrative purpose only, the proforma financial effects of the Proposed Disposal on the consolidated earnings of the Group, assuming that the Proposed Disposal had been completed on 1 January 2014, being the beginning of the most recently completed FY2014, are set out below:

	Before Proposed Disposal	After Proposed Disposal
Profits attributable to Shareholders of the Company (S\$'000)	61	2,940
Number of shares ⁽¹⁾	276,684,812	276,684,812
EPS (cents)	0.02	1.06

Notes:

(1) The number of shares does not include the 387,358,736 rights shares which were issued on 5 March 2015.

7 RELATIVE FIGURES COMPUTED ON THE BASES SET OUT IN RULE 1006 OF THE LISTING MANUAL

7.1 The relative figures computed on the bases set out in Rule 1006 of the Mainboard Listing Manual of the SGX-ST ("**Listing Manual**") in respect of the Proposed Disposal, and based on the announced audited consolidated financial statements of the Group for FY2014 are as follows:

Rule 1006	Bases	DET (S\$'000)	Group (S\$'000)	Percentage (%)
(a)	Net asset value of the assets to be disposed of, compared with the Group's net asset value	(1,629) ⁽¹⁾	7,007 ⁽²⁾	(23)
(b)	Net profits attributable to the assets disposed of, compared with the Group's net profits	(595)	290 ⁽²⁾	(205)
(c)	Aggregate value of the consideration received, compared with the Company's market capitalisation ⁽³⁾ based on the total number of issued shares excluding treasury shares	1,250	22,577	6
(d)	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)	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 audited financial statements of DET for the financial year ended 31 December 2014, taking into account the provisions made for disputed tax assessment and tax penalties of S\$1,661,000 and S\$1,768,000 respectively (as stated on page 135, note 30 of the Group's annual report for FY2014), as well as provisions for two (2) ongoing litigations amounting to S\$1,280,000 (as stated on 100, note 14 of the Group's annual report for FY2014). These provisions shall be reversed, resulting in a gain on disposal of subsidiary to the Group.
- (2) Based on the audited financial statements of the Group for FY2014 incorporating audit adjustments made subsequent to the announced audited financial results of the Group for FY2014, which are set out in the Company's announcement dated 6 April 2015.
- (3) The market capitalisation of the Company is calculated on the basis of 664,043,548 shares in issue (excluding treasury shares) as at the date of this announcement and the one (1) day volume-weighted average price of S\$0.034 for each share on 24 July 2015, being the last market day on which shares were traded immediately before the date of the SPA.
- (4) Not applicable as the Proposed Disposal does not pertain to an acquisition and there is no issuance of equity securities by the Company.
- (5) Not applicable as the Proposed Disposal is not a disposal of mineral, oil or gas assets and the Company is not a mineral, oil and gas company.

7.2 Rules 1014(1) and 1014(2) of the Listing Manual provide that where any of the relative figures as computed on the bases set out in Rule 1006 of the Listing Manual exceeds 20%, the transaction is classified as a major transaction and requires the approval of Shareholders of the Company in a general meeting.

7.3 The relative figures pursuant to Rules 1006(a) and 1006(b) are negative figures. Rule 1007(1) provides that Chapter 10 of the Listing Manual may still be applicable to the Proposed Disposal at the discretion of SGX-ST, and the Company should consult SGX-ST.

7.4 Notwithstanding that the relative figures pursuant to Rules 1006(a) and 1006(b) of the Listing Manual have exceeded the 20% threshold provided for in Rule 1014 for major transactions, the Company will be seeking SGX-ST's consent for a waiver from the requirement to seek Shareholders' Approval for the Proposed Disposal (the "**Waiver**"). Accordingly, the Company will make the necessary further disclosure at the appropriate time. In the event such Waiver is not obtained from SGX-ST, the Company shall proceed to seek its Shareholders' Approval for the Proposed Disposal in an extraordinary general meeting.

8 DIRECTORS' SERVICE CONTRACTS

No person is proposed to be appointed as a director of the Company in connection with the Proposed Disposal. Accordingly no service contract is proposed to be entered into between the Company and any such person.

9 INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

Other than through their respective shareholdings in the Company, none of the directors and/or substantial shareholders of the Company have any interest (direct or indirect) in the Proposed Disposal.

10 DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the SPA will be available for inspection during normal business hours at the Company's registered office at 123 Woodlands Industrial Park E5, Woodlands E-Terrace, Singapore 757498 for a period of three (3) months from the date of this announcement.

11 FURTHER ANNOUNCEMENTS

The Company will make further announcements on the Proposed Disposal as appropriate or when there are further developments on the same.

12 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 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
Managing Director and Chief Executive Officer
27 July 2015