CIRCULAR DATED 9 JUNE 2020

THIS CIRCULAR IS ISSUED BY DARCO WATER TECHNOLOGIES LIMITED (THE "COMPANY"). THIS CIRCULAR IS IMPORTANT AS IT CONTAINS THE RECOMMENDATION OF THE INDEPENDENT DIRECTORS (AS DEFINED HEREIN) AND THE ADVICE OF RHT CAPITAL PTE. LTD. (AS THE INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT DIRECTORS) TO THE INDEPENDENT DIRECTORS. THIS CIRCULAR REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY.

If you are in any doubt in relation to this Circular or as to the action you should take, you should consult your stockbroker, bank manager, accountant, solicitor, tax adviser or other professional adviser immediately. If you have sold or transferred all your Shares (as defined herein) held through CDP (as defined herein), you need not forward this Circular to the purchaser or the transferee, as arrangements will be made by CDP for a separate Circular to be sent to the purchaser or transferee. If you have sold or transferred all your Shares which are not deposited with CDP, you should immediately forward this Circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee. This Circular has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"). The SGX-ST assumes no responsibility for the contents of this Circular, including the correctness of any of the statements or opinions made or reports contained in this Circular.

DARCO
SOLUTIONS TO WATER & WASTE

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

CIRCULAR TO SHAREHOLDERS

in relation to the

MANDATORY CONDITIONAL CASH OFFER

by

UOB KAY HIAN PRIVATE LIMITED
(Company Registration No.: 197000447W)
(Incorporated in the Republic of Singapore)

for and on behalf of

WANG ZHI

to acquire all the issued and paid-up ordinary shares in the capital of the Company excluding treasury shares and other than shares already owned, controlled or agreed to be acquired by Wang Zhi

Independent Financial Adviser to the Independent Directors of the Company

RHT Capital

RHT CAPITAL PTE. LTD.
(Incorporated in the Republic of Singapore)
(Company Registration No.: 201109968H)

SHAREHOLDERS SHOULD NOTE THAT THE OFFER DOCUMENT (AS DEFINED HEREIN) STATES THAT ACCEPTANCES MUST BE RECEIVED BY THE CLOSE OF THE OFFER AT 5.30 P.M. (SINGAPORE TIME) ON 23 JUNE 2020. THE OFFEROR DOES NOT INTEND TO EXTEND THE OFFER BEYOND THAT DATE OR TO REVISE THE TERMS OF THE OFFER. NOTICE IS HEREBY GIVEN THAT THE OFFER WILL CLOSE AT 5.30 P.M. ON 23 JUNE 2020 AND WILL NOT BE OPEN FOR ACCEPTANCE BEYOND 5.30 P.M. ON 23 JUNE 2020 AND WILL NOT BE REVISED, SAVE THAT SUCH NOTICE SHALL NOT BE CAPABLE OF BEING ENFORCED IN A COMPETITIVE SITUATION.

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Except where the context otherwise requires, the following definitions apply throughout this Circular:

GENERAL

"Accepting Shareholder"	:	A Shareholder who tenders his Shares in acceptance of the Offer.
"Acquisition"	:	Shall have the meaning ascribed to it in **Section 1.1(a)** of this Circular.
"Asset Injection"	:	The condition precedent under the Wang Zhi Placement Agreement pursuant to which Mr. Wang Zhi has undertaken 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) within 24 months from the completion date of the Wang Zhi Placement Agreement.
"Board"	:	Board of Directors of the Company.
"Business Day"	:	A day (other than Saturday, a Sunday or a gazetted public holiday) on which commercial banks are open for business in Singapore.
"Circular"	:	This circular to Shareholders dated 9 June 2020 in relation to the Offer enclosing, *inter alia*, the IFA Letter.
"Closing Date"	:	5.30 p.m. (Singapore time) on 23 June 2020, such date being the last day for the lodgement of acceptances of the Offer.
"Code"	:	The Singapore Code on Take-overs and Mergers.
"Companies Act"	:	The Companies Act, Chapter 50 of Singapore.
"Company Securities"	:	(a) Shares; (b) other securities which carry voting rights in the Company; and (c) convertible securities, warrants, options and derivatives in respect of the Shares or securities which carry voting rights in the Company.
"Constitution"	:	The constitution of the Company.
"CPFIS"	:	Central Provident Fund Investment Scheme.
"Directors"	:	The directors of the Company as at the Latest Practicable Date, and "*Director*" means any one of them.
"FAA"	:	Form of Acceptance and Authorisation for Offer Shares, which forms part of the Offer Document and which is issued to Shareholders whose Offer Shares are deposited with CDP.

"FAT"	:	Form of Acceptance and Transfer for Offer Shares, which forms part of the Offer Document and which is issued to Shareholders whose Offer Shares are registered in their own names in the Register and are not deposited with CDP.
FY"	:	Financial year ended or ending on (as the case may be) 31 December of a particular year as stated.
"IFA Letter"	:	The letter dated 9 June 2020 from the IFA to the Independent Directors in respect of the Offer, as set out in **Appendix I** to this Circular.
"Independent Directors"	:	The Directors who are considered to be independent for the purposes of the Offer under the Code, namely, Mr. Wang Yaoyu, Mr. Poh Kok Hong, Mr. Tay Lee Chye Lester, Mr. Tay Von Kian, Ms. Gn Jong Yuh Gwendolyn and Ms. Ong Joo Mien.
"Interested Person"	:	As defined in the Note on Rule 24.6 of the Code and read with the Note on Rule 23.12 of the Code, an interested person, in relation to a company, is: (a) a director, chief executive officer, or Substantial Shareholder of the company; (b) the immediate family of a director, the chief executive officer, or a Substantial Shareholder (being an individual) of the company; (c) the trustees, acting in their capacity as such trustees, of any trust of which a director, the chief executive officer or a Substantial Shareholder (being an individual) and his immediate family is a beneficiary; (d) any company in which a director, the chief executive officer or a Substantial Shareholder (being an individual) together and his immediate family together (directly or indirectly) have an interest of 30% or more; (e) any company that is the subsidiary, holding company or fellow subsidiary of the Substantial Shareholder (being a company); or (f) any company in which a Substantial Shareholder (being a company) and any of the companies listed in (e) above together (directly or indirectly) have an interest of 30% or more.
"Latest Practicable Date"	:	5 June 2020, being the latest practicable date prior to the issuance of this Circular, save that where parts of the Offer Document are reproduced, references to the "*Latest Practicable Date*" in such reproduction shall mean the Offer Document LPD.

"Listing Manual"	:	The listing manual of the SGX-ST.
"Market Day"	:	A day on which the SGX-ST is open for trading of securities.
"Offer"	:	The mandatory conditional cash offer by UOBKH, for and on behalf of the Offeror, to acquire all the Offer Shares on the terms and subject to the conditions set out in the Offer Document, the FAA and/or the FAT, as the case may be, as such offer may be amended, extended and revised from time to time by or on behalf of the Offeror.
"Offer Announcement"	:	The announcement issued by UOBKH, for and on behalf of the Offeror, on the Offer Announcement Date in relation to the mandatory conditional cash offer for all the Offer Shares.
"Offer Announcement Date"	:	5 May 2020, being the date of the Offer Announcement.
"Offer Document"	:	The offer document dated 26 May 2020, including the FAA and the FAT, issued by UOBKH, for and on behalf of the Offeror, in respect of the Offer, and any other document(s) which may be issued for and on behalf of the Offeror to amend, revise, supplement or update the document(s) from time to time.
Offer Document LPD"	:	19 May 2020, stated in the Offer Document to be the latest practicable date prior to the issue of the Offer Document.
"Offer Price"	:	S$0.17 in cash for each Offer Share.
"Offer Shares"	:	Shall have the meaning ascribed to it in **Section 1.1(c)** of this Circular.
"Overseas Shareholders"	:	Shall have the meaning ascribed to it in **Section 12** of this Circular.
"Register"	:	The register of holders of Shares, as maintained by the Share Registrar.
"Securities Account"	:	The securities account maintained by a Depositor with CDP but does not include a securities sub-account.
"SFA"	:	The Securities and Futures Act, Chapter 289 of Singapore.
"SGXNET"	:	The system network used by listed companies to send information and announcements to the SGX-ST or any other system networks prescribed by the SGX-ST.
"Shareholders"	:	Holders of Shares as indicated on the Register and Depositors who have Shares entered against their names in the Depository Register.
"Shares"	:	Issued and paid-up ordinary shares in the capital of the Company.
"SRS"	:	Supplementary Retirement Scheme.

"Substantial Shareholder"	:	A person who has an interest in not less than five per cent. (5%) of the total number of issued voting Shares.
"VWAP"	:	Volume weighted average price.
"Wang Zhi Placement Agreement"	:	Shall have the meaning ascribed to it in **Paragraph 7(a)** of **Appendix II** to this Circular.

<u>Units and Currencies</u>

"RMB"	:	Renminbi, being the lawful currency of the People's Republic of China.
"S$" and *"cents"*	:	Singapore dollars and cents, respectively, being the lawful currency of Singapore.
"US$"	:	United States dollars, being the lawful currency of the United States of America.
"%" or *"per cent."*	:	Percentage or per centum.

<u>Companies / Individuals / Organisations</u>

"CDP"	:	The Central Depository (Pte) Limited.
"Company" or *"Offeree"*	:	Darco Water Technologies Limited.
"CPF"	:	Central Provident Fund.
"CPF Agent Banks"	:	Agent banks included under the CPFIS.
"CPFIS Investors"	:	Investors who have purchased Shares using their CPF contributions pursuant to the CPFIS.
"Group"	:	The Company and its subsidiaries .
"IFA" or "RHTC"	:	RHT Capital Pte. Ltd., the independent financial adviser to the Independent Directors in respect of the Offer.
"Offeror"	:	Wang Zhi.
SGX-ST"	:	Singapore Exchange Securities Trading Limited.
Share Registrar"	:	Boardroom Corporate & Advisory Services Pte. Ltd..
SIC"	:	The Securities Industry Council of Singapore.
"Seller"	:	Shall have the meaning ascribed to it in **Section 1.1(a)** of this Circular.
"SRS Agent Banks"	:	Agent banks included under the SRS.
"SRS Investors"	:	Investors who have purchased Shares using their SRS contributions pursuant to the SRS.

Acting in Concert. Unless otherwise defined, the term "*acting in concert*" shall have the same meaning as ascribed to it in the Code.

Announcements and Notices. References to the making of an announcement or the giving of notice by the Company shall include the release of an announcement by the Company or its agents, for and on behalf of the Company, to the press or the delivery of or transmission by telephone, facsimile, SGXNET or otherwise of an announcement to the SGX-ST. An announcement made otherwise than to the SGX-ST shall be notified to the SGX-ST simultaneously.

Capitalised Terms in Extracts. Statements which are reproduced in their entirety from the Offer Document, the IFA Letter and the Constitution are set out in this Circular within quotes and italics, and capitalised terms used within these reproduced statements shall bear the same meanings as attributed to them in the Offer Document, the IFA Letter and the Constitution respectively.

Depository Related Terms. The terms "*Depositor*" and "*Depository Register*" shall have the meanings ascribed to them respectively in Section 81 SF of the SFA.

Subsidiary and Related Corporation. References to "*subsidiary*" and "*related corporation*" shall have the meanings ascribed to them respectively in Sections 5 and 6 of the Companies Act respectively.

Shareholders. References to "*you*", "*your*" and "*yours*" in this Circular are, as the context so determines, to the Shareholders.

Headings. The headings in this Circular are inserted for convenience only and shall be ignored in construing this Circular.

Expressions. Words importing the singular shall, where applicable, include the plural and vice versa and words importing one gender shall, where applicable, include any or all other genders. References to persons shall, where applicable, include corporations.

Statutes. Any reference in this Circular to any enactment or statutory provision is a reference to that enactment as for the time being amended or re-enacted, unless the context otherwise requires. Any word defined under the Companies Act, the SFA, the Listing Manual or the Code or any modification thereof and used in this Circular shall, where applicable, have the meaning assigned to it under the Companies Act, the SFA, the Listing Manual or the Code or any modification thereof, as the case may be, unless the context otherwise requires.

Time and Date. Any reference to a time of day and date in this Circular is made by reference to Singapore time and date, unless otherwise stated.

Rounding. Any discrepancies in figures included in this Circular between the amounts shown and the total thereof are due to rounding. Accordingly, figures shown as totals in this Circular may not be an arithmetic aggregation of the figures that precede them.

Total number of Shares and Percentage as at the Latest Practicable Date. In this Circular, the total number of Shares is a reference to a total of 93,831,492 Shares in issue as at the Latest Practicable Date (excluding treasury shares) based on a search conducted at ACRA, unless the context otherwise requires. Unless otherwise specified, all references to the percentage shareholding in the capital of the Company in this Circular are based on 93,831,492 Shares in issue as at the Latest Practicable Date (excluding treasury shares) based on a search conducted at ACRA. As at the Latest Practicable Date, the Company does not have any treasury shares.

All statements other than statements of historical facts included in this Circular are or may be forward-looking statements. Forward-looking statements include but are not limited to those using words such as "aim", "seek", "expect", "anticipate", "estimate", "believe", "intend", "project", "plan", "potential", "strategy", "forecast", "possible", "probable" and similar expressions or future or conditional verbs such as "if", "will", "would", "should", "could", "may" or "might". These statements reflect the Company's current expectations, beliefs, hopes, intentions or strategies regarding the future and assumptions in light of currently available information as at the Latest Practicable Date. Such forward-looking statements are not guarantees of future results, performance, events or achievements and involve known and unknown risks and uncertainties. Accordingly, actual results or outcomes may differ materially from those described in such forward-looking statements. Given the risks and uncertainties involved, Shareholders and investors should not place undue reliance on such forward-looking statements, and neither the Company nor the IFA guarantees any future performance or event, or undertakes any obligation to update publicly or revise any forward-looking statements, subject to compliance with all applicable laws and regulations and/or rules of the SGX-ST and/or any other regulatory or supervisory body or agency.

Date of Despatch of the Offer Document	:	26 May 2020
Date of Despatch of this Circular	:	9 June 2020
Closing Date	:	5.30 p.m. (Singapore time) on 23 June 2020
Settlement of consideration for valid acceptances of the Offer	:	Subject to the Offer becoming or being declared unconditional in all respects and to the receipt by the Offeror from the Accepting Shareholders of valid acceptances and all relevant documents required by the Offeror which are complete in all respects and in accordance with the instructions given in the Offer Document and in the FAA and/or the FAT, as the case may be, and in the case of a Depositor, the receipt by the Offeror of a confirmation satisfactory to it that the relevant number of Offer Shares tendered by the Accepting Shareholders in acceptance of the Offer are standing to the credit of the "Free Balance" of their respective Securities Account at the relevant time(s), remittances in the form of S$ cheques drawn on a bank in Singapore for the appropriate amounts will be despatched, to the Accepting Shareholders (or in the case of an Accepting Shareholder holding share certificate(s) which is not deposited with CDP, her/his designated agent (if any)) by ordinary post and at the risk of the Accepting Shareholders or by such other manner as the Accepting Shareholders may have agreed with CDP for payment of any cash distributions as soon as practicable but in any event: (a) in respect of valid acceptances of the Offer which are complete in all respects and are received **on or before** the date on which the Offer becomes or is declared to be unconditional in all respects in accordance with its terms, within seven (7) Business Days of such date; or (b) in respect of valid acceptances of the Offer which are complete in all respects and are received **after** the Offer becomes or is declared to be unconditional in all respects in accordance with its terms, but before the

Closing Date, within seven (7) Business Days of such date.

Please refer to Section 2 of Appendix 1 to the Offer Document for further information.

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

Directors	**Registered Office**
Mr. Wang Yaoyu (Executive Chairman) Mr. Wang Zhi (Non-Executive Deputy Chairman) Mr. Poh Kok Hong (Executive Director and Chief Executive Officer) Mr. Tay Lee Chye Lester (Lead Independent Director) Mr. Tay Von Kian (Non-Executive Independent Director) Ms. Gn Jong Yuh Gwendolyn (Non-Executive Independent Director) Ms. Ong Joo Mien (Non-Executive Independent Director)	280 Woodlands Industrial Park E5, #09-36 Harvest @ Woodlands, Singapore 757322

9 June 2020

To: The Shareholders of Darco Water Technologies Limited

Dear Sir/Madam

MANDATORY CONDITIONAL CASH OFFER BY UOBKH, FOR AND ON BEHALF OF THE OFFEROR, FOR ALL THE OFFER SHARES

1. INTRODUCTION

1.1. Offer Announcement

On the Offer Announcement Date, UOBKH announced, for and on behalf of the Offeror that:

(a) the Offeror had, pursuant to a sale and purchase agreement dated 5 May 2020, purchased from Wuhan Liankai Investment Co., Ltd. (the "**Seller**") an aggregate of 13,387,118 Shares representing approximately 14.27% of the total number of Shares for an aggregate consideration of S$2,275,810.06, being S$0.17 for each Share (the "**Acquisition**"). The Acquisition was effected by way of a married deal and the consideration for the Acquisition was satisfied in cash;

(b) prior to the Acquisition, the Offeror owned or controlled 27,680,000 Shares, representing approximately 29.50% of the total number of Shares and as a result of the Acquisition, the Offeror owns or controls an aggregate of 41,067,118 Shares, representing approximately 43.77% of the total number of Shares; and

(c) as a consequence of the Acquisition, the Offeror is required to make a mandatory general offer for all the Shares (excluding treasury shares and other than those already owned, controlled or agreed to be acquired by the Offeror) (the "**Offer Shares**"), in accordance with Section 139 of the SFA and Rule 14 of the Code.

A copy of the Offer Announcement is available on the website of the SGX-ST at www.sgx.com.

1.2. Offer Document

Shareholders should have by now received a copy of the Offer Document, as announced by UOBKH, for and on behalf of the Offeror, which was despatched on 26 May 2020, setting out, *inter alia*, the terms and conditions of the Offer. The principal terms and conditions of the Offer are set out in Section 2 of the Offer Document. **Shareholders are advised to read the terms and conditions of the Offer set out in the Offer Document carefully.**

A copy of the Offer Document is available on the website of the SGX-ST at www.sgx.com.

1.3. Independent Financial Adviser

The Company has appointed RHTC as the independent financial adviser to advise the Independent Directors in respect of the Offer.

1.4. Purpose of the Circular

The purpose of this Circular is to provide Shareholders with relevant information pertaining to the Company, the Offer, the advice of the IFA to the Independent Directors and the recommendation of the Independent Directors with regard to the Offer.

Shareholders should read the Offer Document, this Circular and the IFA Letter set out in Appendix I to this Circular carefully and consider the recommendation of the Independent Directors and the advice of the IFA to the Independent Directors in respect of the Offer before deciding whether or not to accept the Offer.

If you are in any doubt in relation to this Circular or as to the action you should take, you should consult your stockbroker, bank manager, accountant, solicitor, tax adviser or other professional adviser immediately.

2. THE OFFER

Based on the information set out in the Offer Document, the terms and conditions of the Offer are as set out below.

2.1. Terms of the Offer

The Offer is made by UOBKH, for and on behalf of the Offeror, on the principal terms set out in the Offer Document. The information on the principal terms of the Offer set out in italics below has been extracted from Sections 2, 3 and 4 of the Offer Document. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

*“ **2. TERMS OF THE OFFER***

2.1. Terms of the Offer

The Offer is extended to all the Offer Shares, subject to the terms and conditions set out in this Offer Document and the FAA and/or FAT, as the case may be.

2.2. Offer Price

For an on behalf of the Offeror, UOBKH hereby makes the Offer in accordance with Section 139 of the SFA and Rule 14 of the Code to acquire the Offer Shares on the following basis:

For each Offer Share: S$0.17 in cash

The Offeror does not intend to revise the Offer Price, except that the Offeror reserves the right to do so in a competitive situation.

2.3. No Encumbrances

The Offer Shares will be acquired:

(a) validly issued and fully paid;

(b) free from all mortgages, assignments, debentures, liens, hypothecation, charges, pledges, adverse claims, rent-charge, title retention, claims, equity, options, encumbrances, pre-emption rights, rights to acquire, security agreement and security interest or other rights of whatever nature; and

(c) together with all rights, benefits, entitlements and advantages attached to the Offer Shares as at the Offer Announcement Date, and thereafter attaching to the Offer Shares (including the right to receive and retain all Distributions (if any) which may be announced, declared, made or paid thereon by the Company on or after the Offer Announcement Date).

Accordingly, if any Distribution is or has been announced, declared, paid or made by the Company on or after the Offer Announcement Date, the Offeror reserves the right to reduce the Offer Price correspondingly by the amount of such dividend, right, distribution, return of capital and/or other entitlements.

2.4. Adjustment for Distributions

Without prejudice to the foregoing, the Offer Price has been determined on the basis that the Offer Shares will be acquired with the right to receive any Distribution that may be declared, paid or made by the Company on or after the Offer Announcement Date.

*Accordingly, in the event any Distribution is or has been declared, paid or made by the Company in respect of the Offer Shares on or after the Offer Announcement Date to a Shareholder who validly accepts the Offer (the "**Accepting Shareholder**"), the Offer Price payable to such Accepting Shareholder may be reduced by an amount which is equal to the amount of such Distribution, depending on when the settlement date in respect of the Offer Shares tendered in acceptance of the Offer by the Accepting Shareholder falls, as follows:*

*(a) if such settlement date falls **on or before** the Books Closure Date, the*

Offer Price for each Offer Share shall remain unadjusted and the Offeror shall pay the Accepting Shareholder the unadjusted Offer Price for each Offer Share, as the Offeror will receive the Distribution in respect of such Offer Share from the Company; or

*(b) if such settlement date falls **after** the Books Closure Date, the Offer Price for each Offer Share shall be reduced by an amount which is equal to the amount of the Distribution in respect of each Offer Share (the Offer Price after such reduction, the "**Adjusted Offer Price**") and the Offeror shall pay the Accepting Shareholder the Adjusted Offer Price for each Offer Share, as the Offeror will not receive the Distribution in respect of such Offer Share from the Company.*

2.5. No Convertibles Securities

As at the Latest Practicable Date, based on publicly available information, there are no outstanding instruments convertible into rights to subscribe for, and options in respect of, securities which carry voting rights, in the Company.

3. MINIMUM ACCEPTANCE CONDITION

The Offer will be conditional upon the Offeror having received, by the Closing Date of the Offer, valid acceptances in respect of such number of Offer Shares which, when taken together with the Shares owned, controlled or agreed to be acquired by the Offeror and his Concert Parties (either before or during the Offer and pursuant to the Offer or otherwise), would result in the Offeror and his Concert Parties holding such number of Shares carrying more than 50% of the total voting rights attributable to the issued Shares (excluding treasury shares).

4. WARRANTY

A Shareholder who tenders her/his Offer Shares in acceptance of the Offer will be deemed to have unconditionally and irrevocably warranted that she/he sells such Offer Shares, as or on behalf of, the beneficial owner(s) thereof, (a) fully paid, (b) free from all Encumbrances whatsoever and (c) transferred together with all rights, benefits and entitlements attached to them as at the Offer Announcement Date and thereafter attaching thereto, including but not limited to the right to receive and retain all Distributions (if any) declared, paid or made by the Company on or after the Offer Announcement Date."

2.2. Duration of the Offer

The information on the duration of the Offer set out in italics below has been extracted from Section 5 of the Offer Document. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

*" **5. DURATION OF THE OFFER***

The Offer is open for acceptance by Shareholders for at least 28 days after the Despatch Date, unless the Offer is withdrawn with the consent of the SIC and every *person released from any obligation incurred thereunder.*

Accordingly, the Offer will close at 5.30 p.m. (Singapore time) on 23 June 2020.

Notice is hereby given that the Offer will not be extended, revised or be open for acceptance beyond 5.30 p.m. on 23 June 2020, save that such notice shall not be capable of being enforced in a competitive situation."

2.3. Further Details of the Offer

Further details on the Offer set out in italics below has been extracted from Appendix 1 of the Offer Document. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

" ***1. DURATION OF THE OFFER***

1.1. Closing Date

Pursuant to Rule 22.3 of the Code, except insofar as the Offer is withdrawn with the consent of the SIC and every person released from any obligation incurred thereunder, the Offer will remain open for acceptances by Shareholders for a period of at least 28 days from the Despatch Date.

Accordingly, the Offer will close at 5.30 p.m. (Singapore time) on 23 June 2020.

Notice is hereby given that the Offer will not be extended, revised or be open for acceptance beyond 5.30 p.m. on 23 June 2020, save that such notice shall not be capable of being enforced in a competitive situation.

1.2. Offer to Remain Open for 14 Days after being Declared Unconditional as to Acceptances

*Pursuant to Rule 22.6 of the Code, after the Offer has become or is declared unconditional as to acceptances, the Offer must remain open for acceptance (the "**Rule 22.6 Period**") for not less than 14 days after the date on which the Offer would otherwise have closed, in order to give Shareholders who have not accepted the Offer the opportunity to do so. This requirement does not apply if, before the Offer becomes or is declared unconditional as to acceptances, the Offeror has given Shareholders notice in writing of at least 14 days (the "**Shut-Off Notice**") that the Offer will not be open for acceptance beyond a specified Closing Date, provided that:*

(a) the Offeror may not give a Shut-Off Notice in a competitive situation; and

(b) the Offeror may not enforce a Shut-Off Notice, if already given, in a competitive situation.

For the purposes of paragraphs 1.1 and 1.2 above, the SIC would normally regard a "competitive situation" to have arisen if a competing offer for the

Company has been announced. If a declaration that the Offer is unconditional is confirmed in accordance with Rule 28.1 of the Code, the Rule 22.6 Period will run from the date of such confirmation or the date on which the Offer would otherwise have closed, whichever is later.

1.3. Final Day Rule

The Offer (whether revised or not) will not be capable of:

(a) becoming or being declared unconditional as to acceptances after 5.30 p.m. (Singapore time) on the 60th day after the Despatch Date; or

*(b) being kept open after the expiry of such 60-day period unless the Offer has previously become or been declared unconditional as to acceptances, provided that the Offeror may extend the Offer beyond such 60-day period with the permission of the SIC (the "**Final Day Rule**"). The SIC will consider granting such permission in circumstances, including but not limited to, where a competing offer has been announced.*

2. SETTLEMENT

Subject to the Offer becoming or being declared unconditional in all respects and to the receipt by the Offeror from the accepting Shareholders of valid acceptances and all relevant documents required by the Offeror which are complete in all respects and in accordance with the instructions given in this Offer Document and in the FAA and/or the FAT, as the case may be, and in the case of a Depositor, the receipt by the Offeror of a confirmation satisfactory to it that the relevant number of Offer Shares tendered by the accepting Shareholders in acceptance of the Offer are standing to the credit of the "Free Balance" of their respective Securities Account at the relevant time(s), remittances in the form of S$ cheques drawn on a bank in Singapore for the appropriate amounts will be despatched, to the accepting Shareholders (or in the case of an accepting Shareholder holding share certificate(s) which is not deposited with CDP, her/his designated agent (if any)) by ordinary post and at the risk of the accepting Shareholders or by such other manner as the accepting Shareholders may have agreed with CDP for payment of any cash distributions as soon as practicable but in any event:

*(a) in respect of valid acceptances of the Offer which are complete in all respects and are received **on or before** the date on which the Offer becomes or is declared to be unconditional in all respects in accordance with its terms, within seven (7) Business Days of such date; or*

*(b) in respect of valid acceptances of the Offer which are complete in all respects and are received **after** the Offer becomes or is declared to be unconditional in all respects in accordance with its terms, but before the Closing Date, within seven (7) Business Days of such date.*

3. ANNOUNCEMENTS

3.1. Timing and Contents

*Pursuant to Rule 28.1 of the Code, by 8.00 a.m. on the dealing day (the "**Relevant Day**") immediately after the day on which the Offer is due to expire, or becomes or is declared unconditional as to acceptances, the Offeror will announce and simultaneously inform the SGX-ST of the total number of Shares (as nearly as practicable):*

(a) for which valid acceptances of the Offer have been received;

(b) held by the Offeror and his Concert Parties before the Offer Period; and

(c) acquired or agreed to be acquired by the Offeror and his Concert Parties during the Offer Period,

and specify the percentages of the total number of issued Shares represented by such numbers.

3.2. Suspension

*If the Offeror is unable, within the time limit, to comply with any requirements in paragraph 3.1 of this **Appendix 1**, the SIC will consider requesting SGX-ST to suspend dealings in the Shares until the relevant information is given.*

3.3. Valid Acceptances

Under the Code and subject to Section 19.4 of this Offer Document, in computing the number of Offer Shares represented by acceptances, the Offeror will at the time of making an announcement take into account acceptances which are valid in all respects.

Acceptances of the Offer will only be treated as valid for the purposes of the acceptance condition if the relevant requirements of Note 2 on Rule 28.1 of the Code are met.

3.4. Announcements

In this Offer Document, references to the making of any announcement or the giving of notice by the Offeror include the release of an announcement by UOBKH or advertising agents for and on behalf of the Offeror, to the press or the delivery of or transmission by telephone, facsimile, SGXNET or otherwise of an announcement to the SGX-ST. An announcement made otherwise than to the SGX-ST shall be notified simultaneously to the SGX-ST.

4. RIGHT OF WITHDRAWAL

4.1. Acceptances Irrevocable

Except as expressly provided in this Offer Document and the Code, acceptances of the Offer shall be irrevocable.

4.2. Right of Withdrawal of Shareholders

A Shareholder who has accepted the Offer may:

(a) *withdraw her/his acceptance immediately if the Offer has become or been declared unconditional as to acceptances but the Offeror fails to comply with any of the requirements described in paragraph 3.1 of this **Appendix 1** above, by 3.30 p.m. (Singapore time) on the Relevant Day. Subject to the Final Day Rule referred to in paragraph 1.3 of this **Appendix 1** above, the Offeror may terminate this right of withdrawal not less than eight (8) days after the Relevant Day by confirming (if that be the case) that the Offer is still unconditional as to acceptances and complying with the requirements described in paragraph 3.1 of this **Appendix 1** above. For the purposes of paragraph 1.2 of this **Appendix 1**, the period of 14 days referred to therein will run from the date of such confirmation (if given) or the date on which the Offer would otherwise have expired, whichever is later;*

(b) *withdraw her/his acceptance after 14 days from the first Closing Date if the Offer has not by then become unconditional as to acceptances. This right of withdrawal will be exercisable until the Offer becomes unconditional as to acceptances; or*

(c) *withdraw her/his acceptance immediately if a competing offer becomes unconditional as to acceptances. This right of withdrawal also applies in the converse situation: if the Offer becomes unconditional, a Shareholder who has accepted a competing offer may likewise withdraw her/his acceptance for such competing offer immediately.*

4.3. Method of Withdrawal

To withdraw her/his acceptance under the Offer:

(a) *a Shareholder holding Offer Shares which are deposited with CDP must give written notice to the Offeror, c/o The Central Depository (Pte) Limited, 11 North Buona Vista Drive, #01-19/20, The Metropolis, Tower 2, Singapore 138589; and*

(b) *a Shareholder holding Offer Shares which are not deposited with CDP must give written notice to Wang Zhi c/o Boardroom Corporate & Advisory Services Pte. Ltd., at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623.*

Such notice of withdrawal shall be effective only if signed by the accepting Shareholder or her/his agent duly appointed in writing and evidence of whose appointment is produced in a form satisfactory to the Offeror within the said notice and when actually received by the Offeror."

2.4. Procedures for Acceptance

The procedures for acceptance of the Offer and the FAA and/or the FAT, as the case may be, are set out in Appendix 2 to the Offer Document.

3. INFORMATION ON THE OFFEROR

The information on the Offeror set out in italics below has been extracted from Section 8 of the Offer Document. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

" 8. INFORMATION ON THE OFFEROR

The Offeror, a Singapore Citizen, with his residential address at 106 Jalan Dusun #06-21 Ah Hood Gardens Singapore (320106), was appointed to the Board of the Company on 3 April 2018 and re-elected by shareholders of the Company on 26 April 2018 at the annual general meeting of the Company. As at the Latest Practicable Date, he continues to be the Non-Executive Deputy Chairman of the Board and the Non-Executive Chairman of the Investment Committee of the Company.

UOBKH, as the financial advisor to the Offeror in connection with the Offer, confirms that sufficient financial resources are available to the Offeror to satisfy full acceptances of the Offer on the basis of the Offer Price."

4. RATIONALE FOR THE OFFER

The full text of the rationale for the Offer has been extracted from Section 10 of the Offer Document and is set out in italics below. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated. **Shareholders are advised to read the extract below carefully.**

" 10. RATIONALE FOR THE OFFER

10.1. Compliance with the Code

As a result of the Acquisition, the Offeror owned, controlled or agreed to acquire not less than 30% of the total number of Shares as at the Offer Announcement Date. Accordingly, the Offeror is required to make the Offer in compliance with Rule 14 of the Code.

10.2. Opportunity for Shareholders to Realise their Investment in Cash at a Premium

The Offer Price represents a premium of approximately 33.33% and 30.57% over the VWAP per Share for the 1-month and 3-month periods up to and including the Last Trading Day respectively, and a discount of approximately 15.88% and 20.49% to the VWAP per Share for the 6-month and 12-month periods up to and including the Last Trading Day respectively.

The Offer therefore presents Shareholders with an opportunity to realise up to their entire investment in the Shares in cash at a premium over the prevailing trading prices of the Shares without incurring brokerage and other trading costs."

5. OFFEROR'S INTENTIONS IN RELATION TO THE COMPANY

The full text of the Offeror's intentions for the Company has been extracted from Section 11 of the Offer Document and is set out in italics below. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated. **Shareholders are advised to read the extract below carefully and note the Offeror's future plans for the Company.**

" ***11. THE OFFEROR'S INTENTIONS RELATING TO THE COMPANY***

The Offeror currently intends for the Company to continue with its existing business activities and has no current intention to (a) introduce any major changes to the business of the Group, (b) re-deploy the fixed assets of the Group, or (c) discontinue the employment of the employees of the Group, other than in the normal course of business.

The Offeror retains the flexibility at any time to consider any options or opportunities which may present themselves and which the Offeror regards to be in the interest of the Offeror and/or the Company."

6. FINANCIAL EVALUATION OF THE OFFER

The full text of the financial evaluation of the Offer has been extracted from Section 12 of the Offer Document and is set out in italics below. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

" ***12. FINANCIAL EVALUATION OF THE OFFER***

The Offer Price of S$0.17 represents the following premium over or discount to the benchmark prices of the Shares as set out below:

Description	***Benchmark Price[(1)] (S$)***	***Premium over / (Discount) to the Benchmark Price[(2)] (%)***
Last transacted price per Share as quoted on the SGX-ST on the Last Trading Day	*0.1300*	*30.77*
VWAP of the Shares for the 1-month period up to and including the Last Trading Day	*0.1275*	*33.33*
VWAP of the Shares for	*0.1302*	*30.57*

the 3-month period up to and including the Last Trading Day		
VWAP of the Shares for the 6-month period up to and including the Last Trading Day	*0.2021*	*(15.88)*
VWAP of the Shares for the 12-month period up to and including the Last Trading Day	*0.2138*	*(20.49)*

Notes:

(1) Based on data extracted from Bloomberg L.P. Figures have been rounded to the nearest four (4) decimal places.

(2) Percentage figures have been rounded to the nearest two (2) decimal places."

7. COMPULSORY ACQUISITION AND LISTING STATUS

The full text of the intentions of the Offeror relating to the compulsory acquisition and listing status of the Company has been extracted from Section 13 of the Offer Document and is set out in italics below. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated. **Shareholders are advised to read the extract below carefully.**

" ***13. LISTING STATUS AND COMPULSORY ACQUISTION***

13.1. Listing Status

Under Rule 1105 of the Listing Manual, upon the announcement by the Offeror that valid acceptances have been received pursuant to the Offer that brings the holdings owned by the Offeror and his Concert Parties to above 90% of the total number of issued Shares (excluding treasury shares), the SGX-ST may suspend the trading of the Shares on the SGX-ST until such time as it is satisfied that at least 10% of the total number of issued Shares (excluding treasury shares) are held by at least 500 Shareholders who are members of the public.

Under Rule 1303(1) of the Listing Manual, where the Offeror succeeds in garnering acceptances exceeding 90% of the total number of issued Shares (excluding treasury shares), thus causing the percentage of the total number of issued Shares (excluding treasury shares) held in public hands to fall below 10%, the SGX-ST will suspend trading of the Shares only at the close of the Offer.

Rule 723 of the Listing Manual requires the Company to ensure that at least

10% of the total number of issued Shares (excluding treasury shares) is at all times held by the public. In addition, under Rule 724(1) of the Listing Manual, if the percentage of the total number of issued Shares (excluding treasury shares) held in public hands falls below 10%, the Company must, as soon as practicable, announce that fact and the SGX-ST may suspend the trading of all the Shares. Rule 724(2) of the Listing Manual further states that the SGX-ST may allow the Company a period of three (3) months, or such longer period as the SGX-ST may agree, to raise the percentage of Shares in public hands to at least 10%, failing which the Company may be delisted from the SGX-ST.

It is the current intention of the Offeror to maintain the listing status of the Company on the SGX-ST following completion of the Offer. In the event that the percentage of Shares (the Company does not hold any treasury shares) held in public hands falls below 10% and the SGX-ST suspends trading of the Shares, the Offeror intends to undertake and/or support any action as may be necessary for any such trading suspension by the SGX-ST to be lifted.

However, the Offeror reserves the right to re-evaluate his position, taking into account, among other things, the level of acceptances received by the Offeror and the prevailing market conditions at the relevant time. Accordingly, there is no assurance that the Offeror will take steps to preserve the listing status of the Company on the SGX-ST if the percentage of Shares (the Company does not hold any treasury shares) held in public hands falls below 10%.

If the Offeror decides not to maintain the listing status of the Company on the SGX-ST after the Company loses its public float, the SGX-ST will generally consider waiving compliance imposed on a voluntary delisting if (a) the Offer is fair and reasonable (and the independent financial adviser to the Company has opined that the Offer is fair and reasonable), and (b) the Offeror has received acceptances from independent Shareholders at the close of the Offer that represent a majority of least 75% of the total number of issued Shares held by independent Shareholders (which refers to Shareholders other than the Offeror and his Concert Parties). The Offeror will make an announcement if it receives acceptances of the Offer in respect of 75% of the total number of issued Shares held by independent Shareholders.

If the waiver conditions are not met and the Company wishes to undertake a voluntary delisting, it will need to do so in accordance with Rule 1307 of the Listing Manual. In the event the Company is unable to meet the conditions for a voluntary delisting, the Company will be obliged to comply with the Listing Manual, including the requirement to restore its public float (through private placement or otherwise).

Shareholders and investors should note there is the risk that the Company may be subject to prolonged suspension should the free float be lost but the requisite conditions for a delisting are not met.

13.2. Compulsory Acquisition

*Pursuant to Section 215(1) of the Companies Act, if the Offeror receives valid acceptances of the Offer and/or acquires such number of Offer Shares from the Despatch Date otherwise than through valid acceptances of the Offer in respect of not less than 90% of the total number of issued Shares (excluding treasury shares and other than Shares already held by the Offeror as at the date of the Offer), the Offeror will be entitled to exercise the right to compulsorily acquire all the Shares of Shareholders who have not accepted the Offer ("**Dissenting Shareholders**") on the same terms as those offered under the Offer. Under Rule 1308(1)(b) of the Listing Manual, Rules 1307 and 1309 of the Listing Manual do not apply to a delisting pursuant to the Offer provided that the Offeror is exercising his right of compulsory acquisition. Accordingly, independent Shareholders' approval for the delisting under Rule 1307 of the Listing Manual is not required in the event the Offeror exercises his right of compulsory acquisition.*

As stated above, it is the current intention of the Offeror to maintain the listing status of the Company. Accordingly, the Offeror presently has no intention of exercising its right of compulsory acquisition under Section 215(1) of the Companies Act, should such right be available to it. However, as set out above, the Offeror reserves the right to re-evaluate his position, taking into account, among other things, the level of acceptances received by the Offeror and the prevailing market conditions at the relevant time.

Dissenting Shareholders have the right under and subject to Section 215(3) of the Companies Act, to require the Offeror to acquire their Shares at the Offer Price in the event that the Offeror or his nominees acquire, pursuant to the Offer, such number of Shares which, together with the Shares held by the Offeror or his nominees, comprise 90% or more of the total number of issued Shares. ***Dissenting Shareholders who wish to exercise such right are advised to seek their own independent legal advice.****”*

8. CONFIRMATION OF FINANCIAL RESOURCES

The full text of the confirmation of financial resources by UOBKH as set out in Section 15 of the Offer Document has been extracted from the Offer Document and is set out in italics below. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

“ ***15. CONFIRMATION OF FINANCIAL RESOURCES***

UOBKH, as the financial advisor to the Offeror in connection with the Offer, confirms that sufficient financial resources are available to the Offeror to satisfy full acceptances of the Offer on the basis of the Offer Price.”

9. DISCLOSURES OF SHAREHOLDINGS, DEALINGS AND OTHER ARRANGEMENTS

The full text of information relating to the disclosure of holdings and dealings in relevant securities by the Offeror and persons acting in concert with the Offeror has been extracted from Section 14 of the Offer Document and is set out in italics below. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

" ***14. DISCLOSURES OF HOLDINGS AND DEALINGS IN SECURITIES***

14.1. Holdings of Relevant Securities by the Relevant Persons

*Save as disclosed below, as at the Latest Practicable Date, pursuant to the completion of the Acquisition, none of the Offeror, his Concert Parties and UOBKH (as the financial advisor to the Offeror in connection with the Offer) (each a "**Relevant Person**" and collectively the "**Relevant Persons**") owns, controls or has agreed to acquire any:*

(a) Shares;

(b) securities which carry voting rights in the Company; or

(c) convertible securities, warrants, options or derivatives in respect of the Shares or securities which carry voting rights in the Company,

(collectively, the "Relevant Securities").

Name	***Direct Interest***		***Deemed Interest***		***Total Interest***	
	No of Shares (1)	***% (2)***	***No of Shares (1)***	***% (2)***	***No of Shares (1)***	***% (2)***
Offeror	*41,067,918*	*43.77*	*-*	*-*	*41,067,918*	*43.77*

Notes:

(1) Including the Sale Shares which the Offeror acquired pursuant to the Acquisition.

(2) *Based on the 93,831,492 Shares (the Company does not hold any treasury shares) in issue as at the Latest Practicable Date.*

14.2. Dealings

Save as disclosed below, none of the Relevant Persons has dealt for value in any Relevant Securities during the Reference Period:

Name	**Date of acquisition**	**Number of Shares acquired**	**Transaction Price per Share (S$)**
Offeror	5 May 2020	13,387,118[(1)]	0.17
Offeror	8 May 2020	800	0.17

Notes:
(1) Being the Sale Shares which the Offeror acquired pursuant to the Acquisition.

14.3. Other Arrangements

As at the Latest Practicable Date, none of the Relevant Persons has:

(a) entered into any arrangement (whether by way of option, indemnity or otherwise) in relation to Shares which might be material to the Offer;

(b) granted any security interest relating to any Relevant Securities to another person, whether through a charge, pledge or otherwise;

(c) borrowed any Relevant Securities from another person (excluding borrowed Relevant Securities which have been on-lent or sold); or

(d) lent any Relevant Securities to another person.

14.4. Irrevocable Undertaking

As at the Latest Practicable Date, none of the Relevant Persons has received any irrevocable undertaking from any party to accept or reject the Offer."

10. ADVICE AND RECOMMENDATION IN RELATION TO THE OFFER

10.1. General

Shareholders should read and carefully consider the recommendation of the Independent Directors as set out in **Section 10.4** of this Circular and the advice of the IFA to the Independent Directors dated 9 June 2020, which is set out in **Appendix I** to this Circular, before deciding whether to accept or reject the Offer.

10.2. Independence of Directors

The SIC has ruled that Mr. Wang Zhi, as the Offeror, is exempted from the requirement to make a recommendation to Shareholders on the Offer as the Board believes that Mr. Wang Zhi would face an irreconcilable conflict of interest in making any recommendation on the Offer to the Shareholder. Notwithstanding such exemption, Mr. Wang Zhi will still assume responsibility for the accuracy of facts stated and opinions expressed in documents, announcements and/or advertisements issued by, or on behalf of, the Company in connection with the Offer.

Therefore, each of Mr. Wang Yaoyu, Mr. Poh Kok Hong, Mr. Tay Lee Chye Lester, Mr. Tay Von Kian, Ms. Gn Jong Yuh Gwendolyn and Ms. Ong Joo Mien considers himself or herself to be independent for the purposes of making a recommendation to the Shareholders in relation to the Offer.

10.3. Advice of the IFA to the Independent Directors

(a) <u>IFA</u>

RHTC has been appointed as the independent financial adviser to advise the Independent Directors in respect of the Offer. Shareholders should consider carefully the recommendation of the Independent Directors and the advice of the IFA to the Independent Directors before deciding whether to accept or reject the Offer. RHTC's advice is set out in its letter dated 9 June 2020, which is set out in **Appendix I** to this Circular.

(b) Factors taken into consideration by the IFA

In arriving at its recommendation, the IFA has taken into account several key considerations, set forth in paragraphs 8 to 9 of the IFA Letter. Shareholders should read paragraphs 8 to 9 of the IFA Letter in conjunction with, and in the context of, the full text of the IFA Letter.

(c) Advice of the IFA for the Independent Directors

After having regard to the considerations set out in the IFA Letter, an extract of the summary which is set out in italics below, and based on the circumstances of the Company and the information available as at the Latest Practicable Date and subject to the qualifications and assumptions set out in the IFA Letter, the IFA has made certain recommendations to the Independent Directors. Shareholders should read the extract below in conjunction with, and in the context of, the full text of the IFA Letter. All terms and expressions used in the extract below shall have the same meanings as those defined in the IFA Letter, unless otherwise stated.

" ***9. OPINION***

…

Having considered the various factors set out in the earlier sections of this Letter and summarised below, we are of the opinion that the financial terms of the Offer are not fair and not reasonable.

We consider the financial terms of the Offer to be ***NOT FAIR****, after taking into consideration the following factors:*

(a) Notwithstanding the Offer Price represents a premium of approximately 30.8%, 33.3% and 30.6% over the VWAP of the Shares on the last traded day prior to the release of the Offer Announcement Date, 1-month and 3-month periods prior to the release of the Offer Announcement respectively, the Offer Price represents a discount of approximately 15.9% and 20.5% to the VWAP of the Shares for 6-month and 1-year periods prior to the release of the Offer Announcement respectively.

(b) The Shares have closed at or above the Offer Price on all 13 traded days from the Offer Announcement Date to the Latest Practicable Date. The Offer Price represents a discount of 19.0% to the highest transacted price of the Shares during the period from the release of the Offer Announcement Date to the Latest Practicable Date.

(c) The Offer Price represents a discount of 56.4% to the audited NTA per Share of the Group as at 31 December 2019.

(d) In respect of the Comparable Companies, we have considered the following factors:

(i) The P/Revenue ratio of the Company of 0.21 times (as implied by the Offer Price) is significantly below the mean and median P/Revenue ratios of the Comparable Companies of 0.75 times and 0.59 times respectively;

(ii) The P/NTA ratio of the Company of 0.44 times (as implied by the Offer Price) is significantly below the mean and median P/NTA ratios of 0.87 times and 0.73 times respectively.

(e) In respect of the Non-Privatisation Transactions, we have considered the following factors:

(i) Notwithstanding the premia implied by the Offer Price of 30.8%, 33.3% and 30.6% over the last transacted price of the Shares prior to the Offer Announcement Date, the 1-month and 3-month period prior to the Offer Announcement date is above the mean and median of the corresponding premia of the Selected Comparable Transactions, the discount implied by the Offer Price of 15.9% and 20.5 to the VWAPs for the 6-month and 12-month period prior to the Offer Announcement Date is significantly below the mean and median of the corresponding premia of the Selected Comparable Transactions;

(ii) The P/NTA ratio of the Group of 0.44 times as implied by the Offer Price is significantly lower than the mean and median P/NTA ratios of the Selected Comparable Transactions; and

We consider the financial terms of the Offer to be ***NOT REASONABLE****, after taking into consideration the following factors:*

(a) The Shares were very thinly traded, trading on only 33 days out of a total of 261 market days during the 1-year period prior to the release of the Offer Announcement. Out of these 33 traded days, the Shares have closed at or above the Offer Price on 27 of these 33 traded days, representing 81.8% of the total traded days of the Shares.

(b) As at 31 December 2019, the Group has a current ratio is 1.5 times which implies that the Group has sufficient current assets to cover the current liabilities.

(c) The Group's net cash outflow from operating activities has decreased significantly in FY2019 as compared to FY2018.

(d) In respect of the Non-Privatisation Transactions, amongst the Selected Comparable Transactions where the respective independent financial advisers had advised independent directors to recommend to shareholders to "accept" the offer, the P/NTA ratios of the majority of such Selected Comparable Transactions are significantly higher than the P/NTA ratio implied by the Offer Price in relation to the Company.

(e) The likelihood of a competing offer for the Shares is remote in view of the Offeror's shareholding interest of approximately 44.1% in the Company as at the Latest Practicable Date.

(f) The Offeror does not intend to revise the Offer Price.

(g) The Offeror intends to maintain the listing status of the Company on SGX-ST. The Offer does not intend to exercise any right of compulsory acquisition under Section 215(1) of the Companies Act in the event that it receives acceptances pursuant to the Offer representing 90.0% or more of the Offer Shares.

Accordingly, we advise the Independent Directors to recommend that Shareholders REJECT the Offer. Considering the illiquidity of the Shares in the one year period prior to the Offer Announcement Date, should Shareholders wish to realise their investments in the Company, they can choose to sell their Shares in the open market at a price equivalent to or higher than the Offer Price (after deducting transaction costs).

As set out in the Offer Document, Shareholders should also take note that it is the current intention of the Offeror to maintain the listing status of the Company on the SGX-ST. In the event the percentage of Shares held in public hands falls below 10.0% and the SGX-ST suspends trading of the Shares, the Offeror reserves the right to re-evaluate its position, taking into account, amongst other things, the level of acceptances received by the Offeror and the prevailing market conditions at the relevant time. Accordingly, there is no assurance that the Offeror will take steps to preserve the listing status of the Company on the SGX-ST if the public float of the Company is less than 10.0%.

We have prepared this Letter for the use of the Independent Directors for their benefit, in connection with and for the purpose of their consideration of the financial terms of the Offer and should not be relied on by any other party. The recommendation made by the Independent Directors to the Shareholders in relation to the Offer shall remain the sole responsibility of the Independent Directors.

Whilst a copy of this Letter may be reproduced in the Circular, neither the Company nor the Directors may reproduce, disseminate or quote this Letter (or any part thereof) for any other purpose at any time and in any manner without the prior written consent of RHTC in each specific case.

This Letter is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not apply by implication to any other matter.

10.4. Recommendation of the Independent Directors

The Independent Directors (other than Mr. Wang Yaoyu), having considered carefully the terms of the Offer and the advice given by the IFA to the Independent Directors in the IFA Letter, in particular, the key considerations set forth in paragraphs 8 to 9 of the IFA Letter, **concur** with the advice of the IFA in respect of the Offer as set out in **Section 10.3** of this Circular and in the IFA Letter. Accordingly, the Independent Directors (other than Mr. Wang Yaoyu) recommend that Shareholders **REJECT** the Offer and to take no action and let the Offer lapse.

Notwithstanding the advice given by the IFA to the Independent Directors in the IFA Letter, Mr. Wang Yaoyu[1], having considered carefully the terms of the Offer, **disagrees** with the advice of the IFA for the Independent Directors to recommend that Shareholders reject the Offer as set out in **Section 10.3** of this Circular and in the IFA Letter for the following reasons: (i) the Offer Price represents a premium of approximately 30.8%, 33.3% and 30.6% over the VWAP of the Shares on the last traded day prior to the release of the Offer Announcement, for the one-month and three-month periods prior to the release of the Offer Announcement respectively; (ii) the Shares have insufficient liquidity in the open market, having been traded for only 33 days out of a total of 261 market days during the one-year period prior to the release of the Offer Announcement; and (iii) due to the current market situation, the industry in which the Group is operating in faces significant challenges. Accordingly, Mr. Wang Yaoyu recommends that Shareholders **ACCEPT** the Offer, unless Shareholders are able to obtain a price higher than the Offer Price on the open market, taking into account all the brokerage commissions or transactions costs in connection with open market transactions.

The Independent Directors also wish to highlight to Shareholders that there is no assurance that the price of the Shares will remain at the current levels after the close or lapse of the Offer and the current price performance of the Shares may not be indicative of the future price performance levels of the Shares.

Shareholders are advised to read the terms and conditions of the Offer Document carefully. Shareholders are also advised to read and consider carefully the recommendation of the Independent Directors and the IFA Letter set out in Appendix I to this Circular in their entirety before deciding whether to accept or reject the Offer. Shareholders should note that the IFA's advice to the Independent Directors and the recommendation of the Independent Directors in respect of the Offer should not be relied upon by any Shareholder as the sole basis for deciding whether or not to accept the Offer.

Shareholders should note that transactions of the Shares are subject to, *inter alia*, performance and prospects of the Group, prevailing economic conditions, economic outlook and possible market fluctuations and accordingly, the advice by the IFA to the Independent Directors on the Offer does not and cannot take into account the future transactions or price levels that may be established for the Shares since these are governed by factors beyond the ambit of the IFA's review.

In rendering the above advice and making the above recommendation, the IFA and the Independent Directors have not considered the specific investment objectives, financial situation, tax status, risk profiles or unique needs and constraints of any individual Shareholder. **As different Shareholders would have different investment profiles and objectives, the Independent Directors recommend that any individual Shareholder who may require specific advice in relation to his/her investment portfolio or objectives and/or the Offer**

[1] The Company would like to note that Mr. Wang Yaoyu has a 36.32% equity interest in the Seller. Pursuant to the Acquisition, the Offeror (i.e., Mr Wang Zhi) purchased an aggregate of 13,387,118 Shares representing approximately 14.27% of the total number of Shares for an aggregate consideration of S$2,275,810.06, being S$0.17 for each Share.

should consult his/her stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately

11. ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders who **wish to accept the Offer** must do so not later than the Closing Date or such later date(s) as may be announced from time to time by or on behalf of the Offeror, abiding by the procedures for the acceptance of the Offer as set out in Appendix 2 to the Offer Document and in the accompanying FAA and/or FAT, as the case may be.

Acceptances should be completed and returned as soon as possible, and in any event, so as to be received on behalf of the Offeror:

(a) by the CDP (in respect of the FAA); or

(b) by the Share Registrar (in respect of the FAT),

as the case may be, not later than the Closing Date or such later date(s) as may be announced from time to time by or on behalf of the Offeror.

Shareholders who **do not wish to accept the Offer** need not take any further action in respect of the Offer Document, the FAA and/or the FAT, as the case may be, which have been sent to them.

12. OVERSEAS SHAREHOLDERS

The availability of the Offer to Shareholders whose addresses are outside Singapore, as shown on the Register or, as the case may be, in the Depository Register (each, an "**Overseas Shareholder**"), may be affected by the laws of the relevant overseas jurisdiction. Overseas Shareholders should refer to Section 16 of the Offer Document, an extract of which is set out in italics below. All terms and expressions used in the extract below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

" ***16. OVERSEAS SHAREHOLDERS***

16.1. Overseas Jurisdictions

This Offer Document does not constitute an offer to sell or the solicitation of an offer to subscribe for or buy any security, nor is it a solicitation of any vote or approval in any jurisdiction, nor shall there be any sale, issuance or transfer of the securities referred to in this Offer Document in any jurisdiction in contravention of applicable laws. The Offer will be made solely by this Offer Document and the relevant form(s) of acceptance, which will contain the full terms and conditions of the Offer, including details of how the Offer may be accepted.

The release, publication or distribution of this Offer Document in certain jurisdictions may be restricted by law and therefore persons in any such jurisdictions into which this Offer Document is released, published or distributed should inform themselves about and observe such restrictions.

Copies of this Offer Document and any other formal documentation relating to the Offer are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in or into or from any Restricted Jurisdiction and the Offer will not be made to, nor will the Offer be capable of acceptance by, any person within any Restricted Jurisdiction if the offer to and/or acceptance by such person will violate the laws of the Restricted Jurisdiction. Persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send them in or into or from any Restricted Jurisdiction.

The Offer (unless otherwise determined by the Offeror and permitted by applicable laws and regulations) will not be made, directly or indirectly, in or into, or by the use of mails of, or by any means or instrumentality (including, without limitation, telephonically or electronically) of interstate or foreign commerce of, or any facility of a national, state or other securities exchange of, any Restricted Jurisdiction and the Offer will not be capable of acceptance by any such use, means, instrumentality or facilities.

Overseas Shareholders may, nonetheless, obtain copies of the Notification (containing the address and instructions for the electronic retrieval of the Offer Document and related documents), the FAA and/or the FAT and any related documents, by writing in to: (a) Wang Zhi c/o The Central Depository (Pte) Limited at 11 North Buona Vista Drive, #01-19/20 The Metropolis Tower 2, Singapore 138589 (if she/he is a Depositor); or (b) Wang Zhi c/o Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623 (if she/he is a scrip holder), to request for the Notification (containing the address and instructions for the electronic retrieval of the Offer Document and related documents), the FAA and/or the FAT and any related documents, to be sent to an address in Singapore by ordinary post at her/his own risk, up to five (5) Market Days prior to the Closing Date.

This Offer Document is available on the website of the SGX-ST at www.sgx.com.

16.2. Overseas Shareholder

The availability of the Offer to Overseas Shareholders may be affected by laws and regulations of the relevant overseas jurisdictions. Accordingly, Overseas Shareholders should inform themselves of, and observe, any applicable legal requirements in the relevant overseas jurisdictions. Overseas Shareholders should also exercise caution in relation to the Offer, as this Offer Document, the FAA and the FAT have not been reviewed by any regulatory authority in any overseas jurisdiction. Where there are potential restrictions on sending this Offer Document, the FAA and/or the FAT to any overseas jurisdiction, each of the Offeror and UOBKH reserves the right not to send these documents to any overseas jurisdiction. ***For the avoidance of doubt, the Offer is open to all Shareholders holding Offer Shares, including those to whom this Offer Document, the FAA and/or the FAT have not been or may not be, mailed or otherwise forwarded, distributed or sent.***

It is the responsibility of any Overseas Shareholder who wishes to (a) request for this Offer Document, the FAA and/or the FAT and/or any related documents, or (b) accept the Offer, to satisfy herself/ himself as to the full observance of the laws of the relevant jurisdiction in that connection, including the obtaining of any governmental or other consent which may be required, and compliance with all necessary formalities or legal requirements and the payment of any taxes, imposts, duties or other requisite payments due in such jurisdiction. Such Overseas Shareholder shall be liable for any such taxes, imposts, duties or other requisite payments payable and the Offeror and any person acting on his behalf (including UOBKH) shall be fully indemnified and held harmless by such Overseas Shareholder for any such taxes, imposts, duties or other requisite payments as the Offeror and/or any person acting on his behalf (including UOBKH) may be required to pay. In (i) requesting for this Offer Document, the FAA and/or the FAT and any related documents and/or (ii) accepting the Offer, the Overseas Shareholder represents and warrants to the Offeror and UOBKH that she/he is in full observance of the laws of the relevant jurisdiction in that connection, and that she/he is in full compliance with all necessary formalities or legal requirements.

Any Overseas Shareholder who is in any doubt about her/his position should consult her/his professional adviser in the relevant jurisdiction.

The Offeror and UOBKH each reserves the right to notify any matter, including the fact that the Offer has been made, to any or all Overseas Shareholders by announcement to the SGX-ST or notice and if necessary, by paid advertisement in a newspaper published and circulated in Singapore, in which case such notice shall be deemed to have been sufficiently given notwithstanding any failure by any Shareholder to receive or see such announcement, notice or advertisement.”

The Constitution provides that any notice or other document may be served by the Company upon a Shareholder, either personally, or by sending it through the post in a prepaid letter or by telex or facsimile transmission addressed to such Shareholder at his address as appearing in the Register or the Depository Register, as the case may be. The Constitution further provides that notwithstanding the foregoing, where the Directors have determined that any notice or other document shall not be served to a Shareholder in any country or jurisdiction outside Singapore, any Shareholder who is described in the Register or in the Depository Register, as the case may be, by an address not within Singapore shall be deemed to be duly served with such notice or document when such notice or document is duly posted up in the registered office for the time being of the Company.

Accordingly, and due to potential restrictions on sending this Circular to overseas jurisdictions, this Circular has not been and will not be sent to any Overseas Shareholder who has not provided, and will not provide, the Company with an address within Singapore at which notices or documents may be served upon him. Any affected Overseas Shareholder may nonetheless (subject to compliance with applicable laws) attend in person and obtain copies of this Circular during normal business hours and up to 5.30 p.m. (Singapore time) on the Closing Date, from the office of the Share Registrar at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623. Alternatively, an Overseas Shareholder may (subject to compliance with applicable laws) write to the Share Registrar at the above-stated address to request for this Circular to be sent to an address in Singapore by ordinary post at his own risk, up to five (5) Market Days prior to the Closing Date.

In requesting for this Circular and any related documents, each of the Overseas Shareholders represents and warrants to the Company that each of them is in full observance of the laws of the relevant jurisdiction in that connection, and that each of them is in full compliance with all necessary formalities or legal requirements.

13. INFORMATION PERTAINING TO CPFIS INVESTORS AND SRS INVESTORS

As stated in the Offer Document, CPFIS Investors and SRS Investors should receive further information on how to accept the Offer from their respective CPF Agent Banks and SRS Agent Banks directly. CPFIS Investors and SRS Investors are advised to consult their respective CPF Agent Banks and SRS Agent Banks should they require further information, and if they are in any doubt as to the action they should take, CPFIS Investors and SRS Investors should seek independent professional advice. CPFIS Investors and SRS Investors who wish to accept the Offer are to reply to their respective CPF Agent Banks and SRS Agent Banks by the deadline stated in the letter from their respective CPF Agent Banks and SRS Agent Banks, which may be earlier than the Closing Date. Subject to the Offer becoming or being declared unconditional in all respects, CPFIS Investors and SRS Investors will receive the Offer Price payable in respect of their Offer Shares validly tendered in acceptance of the Offer through appropriate intermediaries in their respective CPF investment accounts and SRS investment accounts.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company at 280 Woodlands Industrial Park E5, #09-36 Harvest @ Woodlands, Singapore 757322 during normal business hours for the period during which the Offer remains open for acceptance:

(a) the Constitution;

(b) the IFA Letter as set out in **Appendix I** to this Circular;

(c) the letters of consent referred to in **Paragraph 11.2** of **Appendix II** to this Circular;

(d) the annual reports of the Company for FY2017, FY2018 and FY2019; and

(e) the audited consolidated financial statements of the Group for FY2019, as set out in **Appendix IV** to this Circular.

15. DIRECTORS' RESPONSIBILITY STATEMENT

Save for:

(a) the recommendation of the Independent Directors to Shareholders set out in **Section 10.4** of this Circular which is the sole responsibility of the Independent Directors;

(b) the IFA Letter;

(c) information extracted from the Offer Announcement and the Offer Document; and

(d) information relating to the Offeror,

the Directors (including any who may have delegated detailed supervision of this Circular) hereby jointly and severally accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, as at the Latest Practicable Date, opinions expressed in this Circular have been arrived at after due and careful consideration and there are no other facts not contained in this Circular, the omission of which would make any statement in this Circular misleading.

Where any information in this Circular (other than the IFA Letter) has been extracted or reproduced from published or otherwise publicly available sources or obtained from the Offeror (including, without limitation, the Offer Announcement and/or the Offer Document), the sole responsibility of the Directors has been to ensure, through reasonable enquiries, that such information has been accurately and correctly extracted from such sources or, as the case may be, reflected or reproduced in this Circular in its proper form and context.

In respect of the IFA Letter, the sole responsibility of the Directors has been to ensure that the facts stated therein with respect to the Group are fair and accurate.

16. ADDITIONAL INFORMATION

The attention of the Shareholders is also drawn to the Appendices which form part of this Circular.

Yours faithfully

For and on behalf of the Board of Directors of
DARCO WATER TECHNOLOGIES LIMITED

Mr. Wang Yaoyu
Executive Chairman

RHT CAPITAL PTE. LTD.
(Company Registration Number: 201109968H)
(Incorporated in the Republic of Singapore)
9 Raffles Place, #29-01
Republic Plaza Tower 1
Singapore 048619

9 June 2020

To: The Independent Directors of Darco Water Technologies Limited
(deemed to be independent in respect of the Offer)

Mr Wang Yaoyu	(Executive Chairman)
Mr Poh Kok Hong	(Executive Director and Chief Executive Officer)
Mr Tay Lee Chye Lester	(Lead Independent Director)
Mr Tay Von Kian	(Non-Executive Independent Director)
Ms Gn Jong Yuh Gwendolyn	(Non-Executive Independent Director)
Ms Ong Joo Mien	(Non-Executive Independent Director)

Dear Sirs,

INDEPENDENT FINANCIAL ADVICE TO THE INDEPENDENT DIRECTORS IN RESPECT OF THE MANDATORY CONDITIONAL CASH OFFER

*Unless otherwise defined or the context otherwise requires, all terms defined in the circular dated 9 June 2020 ("**Circular**") issued by the Company to the shareholders of the Company ("**Shareholders**") shall have the same meaning herein.*

1. INTRODUCTION

On 5 May 2020 ("**Offer Announcement Date**"), UOB Kay Hian Private Limited ("**UOBKH**"), announced, for and on behalf of Mr Wang Zhi ("**Offeror**"), that the Offeror had, on the same day, purchased from Wuhan Liankai Investment Co. Ltd an aggregate of 13,387,118 ordinary shares ("**Sale Shares**") in the capital of Darco Water Technologies Limited ("**Company**" and together with its subsidiaries, "**Group**"), representing approximately 14.3% of the total number of issued and paid-up ordinary shares in the capital of the Company ("**Shares**") for an aggregate consideration of S$2,275,810.06 ("**Consideration**"), being S$0.17 for each Sale Share ("**Acquisition**"). The Acquisition was made pursuant to a sale and purchase agreement dated 5 May 2020 and was effected by way of a married deal, with the Consideration satisfied in cash. The Company does not hold any treasury shares.

Prior to the Acquisition, the Offeror owned or controlled 27,680,000 Shares, representing approximately 29.50% of the total number of Shares. As a result of the Acquisition, the Offeror would own or control an aggregate of 41,067,118 Shares, representing approximately 43.8% of the total number of Shares as at the Offer Announcement Date.

As a consequence of the Acquisition and with the Offeror's resultant shareholdings crossing the 30.0% threshold, the Offeror is required to make a mandatory general offer for all the Shares (excluding treasury shares and other than those already owned, controlled and agreed to be acquired by the Offeror) ("**Offer Shares**"), in accordance with Section 139 of the Securities and Futures Act, Chapter 289 of Singapore and Rule 14 of the Singapore Code on Take-overs and Mergers ("**Code**").

Following from the above, UOBKH announced on the Offer Announcement Date, for and on behalf of the Offeror, that the Offeror intends to make a mandatory conditional cash offer ("**Offer**") for all the Offer Shares.

The Offeror is the incumbent Non-Executive Deputy Chairman of the Board of Directors ("**Board**") and the Non-Executive Chairman of the Investment Committee of the Company. He is a Singapore Citizen and was appointed to the Board on 3 April 2018 and re-elected by Shareholders on 26 April 2018 at the annual general meeting of the Company. As above, as a result of the Acquisition and as at the Offer Announcement Date, the Offeror owns or controls an aggregate of 41,067,118 Shares, representing 43.8% of the total number of Shares.

On 26 May 2020, the formal Offer was made by UOBKH, for and on behalf of the Offeror, for the Offer Shares, subject to the terms and conditions of the Offer as set out in the offer document dated 26 May 2020 ("**Offer Document**"). Pursuant to the temporary measures issued by the Securities Industry Council ("**SIC**") on 6 May 2020, the Offer Document and the Acceptance Forms were despatched electronically to the Shareholders via SGXNet on 26 May 2020.

As a result of the Acquisition as well as subsequent open market purchases on the SGX-ST ("**Open Market Purchases**") amounting to 285,100 Shares, the Offeror owned or controlled in aggregate 41,352,218 Shares, representing approximately 44.1% of the total number of Shares as at the Latest Practicable Date (as defined therein).

In connection with the Offer, RHT Capital Pte. Ltd. ("**RHTC**") has been appointed by the Company as the independent financial adviser ("**IFA**") to advise the directors who are considered independent in respect of the Offer ("**Independent Directors**"), for the purposes of making their recommendation to Shareholders in respect of the Offer.

Pursuant to the confirmations sought by the Company, the SIC had exempted Mr Wang Zhi from the requirement to make a recommendation on the Offer to Shareholders, as he faces an irreconcilable conflict of interest in doing so, being the Offeror. Notwithstanding such exemption, Mr Wang Zhi, as a Director, will still assume responsibility for the accuracy of facts stated and opinions expressed in the documents, announcements and/or advertisements issued by, or on behalf of, the Company in connection with the Offer. The Company has confirmed to us that the remaining Directors, namely, Mr Wang Yaoyu, Mr Poh Kok Hong, Mr Tay Lee Chye Lester, Mr Tay Von Kian, Ms Gn Jong Yuh Gwendolyn and Ms Ong Joo Mien are considered as Independent Directors in respect of the Offer.

This letter ("**Letter**") is addressed to the Independent Directors and sets out, *inter alia*, our views and evaluation of the financial terms of the Offer, our opinion thereon, and forms part of the Circular providing, *inter alia*, details of the Offer, and the recommendation of the Independent Directors and it is to be despatched to Shareholders in relation to the Offer.

2. TERMS OF REFERENCE

We have been appointed to advise the Independent Directors on the financial terms of the Offer in compliance with the provisions of the Code. We have confined our evaluation to the financial terms of the Offer and have not taken into account the commercial risks and/or commercial merits of the Offer.

Our terms of reference do not require us to evaluate or comment on the rationale for, or the strategic or long term merits of the Offer or on the future prospects of the Company and/or the Group or the method and terms by which the Offer is made or any other alternative methods by which the Offer may be made. Such evaluations and comments remain the sole responsibility of the Directors, although we may draw upon their views or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our opinion as set out in this Letter.

We are not authorised, and we have not solicited, any indications of interest from any third party with respect to the Shares. We are therefore not addressing the relative merits of the Offer as compared to any alternative transaction that may be available to the Company (or its Shareholders), or as compared to any alternative offer that might otherwise be available in the future.

In the course of our evaluation of the financial terms of the Offer, we have relied on, and assumed without independent verification, the accuracy and completeness of published information relating to the Group. We have also relied on information provided and representations made, including relevant financial analyses and estimates, by the management of the Company ("**Management**"), the Directors, the Company's solicitors and auditors. We have not independently verified such information or any representation or assurance made by them, whether written or verbal, and accordingly cannot and do not make any representation or warranty, express or implied, in respect of, and do not accept any responsibility for the accuracy, completeness or adequacy of such information, representation or assurance. We have nevertheless made such enquiries and exercised our judgement as we deemed necessary and have found no reason to doubt the reliability of the information.

We have relied upon the assurances of the Directors that, upon making all reasonable inquiries and to the best of their respective knowledge, information and belief, all material information in connection with the Offer, the Company and/or the Group has been disclosed to us, that such information is true, complete and accurate in all material respects and that there is no other information or fact, the omission of which would cause any information disclosed to us or the facts of or in relation to the Company and/or the Group stated in the Circular to be inaccurate, incomplete or misleading in any material respect. The Directors jointly and severally accept responsibility accordingly.

For the purposes of assessing the financial terms of the Offer and reaching our conclusions thereon, we have not relied upon any financial projections or forecasts in respect of the Company and/or the Group. We will not be required to express, and we do not express, any view on the growth prospects and earnings potential of the Company and/or the Group in connection with our opinion in this Letter.

We have not made an independent evaluation or appraisal of the assets and liabilities of the Company and/or the Group (including without limitation, property, plant and equipment). As such, we will be relying on the disclosures and representations made by the Company on the value of the assets, liabilities and profitability of the Company and/or the Group. We have not been furnished with any such evaluation or appraisal. We have not relied on any financial projections or forecasts in respect of the Company and/or the Group for the purpose of our evaluation of the Offer.

Our analysis and our opinion as set out in this Letter are based upon market, economic, industry, monetary and other conditions in effect on, and the information provided to us as at 5 June 2020 ("**Latest Practicable Date**"). Such conditions may change significantly over a relatively short period of time. We assume no responsibility to update, revise or reaffirm our opinion in light of any subsequent development after the Latest Practicable Date that may affect our opinion contained herein. Shareholders should further take note of any announcements relevant to their consideration of the Offer which may be released by the Company and/or the Offeror after the Latest Practicable Date.

In rendering our opinion, we did not have regard to the specific investment objectives, financial situation, tax status, risk profiles or unique needs and constraints of any individual Shareholder. As each Shareholder would have different investment objectives and profiles, we would advise the Independent Directors to recommend that any individual Shareholder who may require specific advice in relation to his investment objectives or portfolio should consult his stockbroker, bank manager, solicitor, or other professional adviser immediately. As such, our opinion should not be the sole basis for deciding whether or not to accept the Offer.

The Company has been separately advised by its own advisers in the preparation of the Circular (other than this Letter). Accordingly, we take no responsibility for and express no views, express or implied, on the contents of the Circular (other than this Letter).

Our opinion in respect of the Offer, as set out in Section 9 of this Letter, should be considered in the context of the entirety of this Letter and the Circular.

3. THE OFFER

Shareholders should have by now been notified that the Offer Document that contains the formal offer for the Offer Shares, subject to the terms and conditions of the Offer as set out in the Offer Document, has been published on the SGXNet. The principal terms and conditions of the Offer are set out in Sections 2, 3, 4, 5 and 6 of the Offer Document. Shareholders are advised to read the terms and conditions of the Offer as set out in the Offer Document carefully.

The key terms of the Offer are set out below for your reference.

3.1 Offer Price

The Offer Price for each Offer Share will be as follows:

For each Offer Share: S$0.17 in cash. ("Offer Price")

The Offeror does not intend to revise the Offer Price, except that the Offeror reserves the right to do so in a competitive situation.

3.2 Offer Shares

The Offer is extended to all Shares (excluding treasury shares and other than Shares already owned, controlled and agreed to be acquired by the Offeror).

3.3 No Encumbrances

The Offer Shares will be acquired:

(a) Validly issued and fully paid;

(b) free from all mortgages, assignments, debentures, liens, hypothecation, charges, pledges, adverse claims, rent-charge, title retention, claims, equity, options, encumbrances, pre-emption rights, rights to acquire, security agreement and security interest or other rights of whatever nature; and

(c) together with all rights, benefits and entitlements attached thereto as at the Offer Announcement Date and hereafter attaching thereto, including but not limited to all voting rights and the right to receive and retain all dividends, rights, distributions, returns of capital and/or other entitlements (if any) ("**Distributions**") which may be announced, declared, paid or made thereon by the Company on or after the Offer Announcement Date.

If any Distributions is or has been announced, declared, paid or made by the Company on or after the Offer Announcement Date, the Offeror reserves the right to reduce the Offer Price correspondingly by the amount of such dividend, right, distribution, return of capital and/or other entitlements.

3.4 Minimum Acceptance Condition

The Offer will be conditional upon the Offeror having received, by the closing date of the Offer ("**Closing Date**"), valid acceptances in respect of such number of Offer Shares which, when taken together with the Shares owned, controlled or agreed to be acquired by the Offeror and its Concert Parties (either before or during the Offer and pursuant to the Offer or otherwise), would result in the Offeror and its Concert Parties holding such number of Shares carrying more than 50.0% of the total voting rights attributable to the issued Shares (excluding treasury shares).

The Offer is not subject to any other condition.

<u>*Open Market Purchases*</u>

Following the Offer Announcement, UOBKH announced, for and on behalf of the Offeror, that the Offeror had acquired (i) 800 Shares on 8 May 2020; (ii) 8,000 Shares on 22 May 2020; (iii) 21,200 Shares on 29 May 2020; (iv) 117,600 Shares on 2 June 2020; (v) 102,500 Shares on 3 June 2020; (vi) 5,000 Shares on 4 June 2020; and (vii) 30,000 Shares on 5 June via Open Market Purchases. As a result of the Open Market Purchases, the Offeror owned or controlled an aggregate of 285,100 Shares, representing approximately 0.3% of the total number of Shares.

Following from the above, as at the Latest Practicable Date, the Offeror owned or controlled in aggregate 41,352,218 Shares, representing approximately 44.1% of the total number of Shares. The Offeror has not announced the valid acceptances that it has received and has not announced that the Offer has turned unconditional in all respects.

3.5 Warranty

A Shareholder who tenders her/his Offer Shares in acceptance of the Offer will be deemed to have unconditionally and irrevocably warranted that she/he sells such Offer Shares, as or on behalf of, the beneficial owner(s) thereof, (a) fully paid, (b) free from all Encumbrances whatsoever and (c) transferred together with all rights, benefits and entitlements attached to them as at the Offer Announcement Date and thereafter attaching thereto, including but not limited to the right to receive and retain all Distributions (if any) declared, paid or made by the Company on or after the Offer Announcement Date.

3.6 Duration of the Offer

Pursuant to Rule 22.3 of the Code, except insofar as the Offer is withdrawn with the consent of the SIC and every person released from any obligation incurred thereunder, the Offer will remain open for acceptances by Shareholders for a period of at least 28 days after the date of posting of the Offer Document ("**Despatch Date**").

Accordingly, the Offer will close at 5.30 p.m. (Singapore time) on 23 June 2020. Notice was given in the Offer Document that the Offer will not be extended, revised or be open for acceptance beyond 5.30 p.m. (Singapore time) on 23 June 2020, save that such notice shall not be capable of being enforced in a competitive situation.

3.7 Further details of the Offer

Further details of the Offer, including details on (a) the settlement of the consideration of the Offer; (b) the requirements relating to the announcements of the level of acceptances of the Offer; (c) the right of withdrawal of acceptances of the Offer; and (d) the procedures for acceptance of the Offer, are set out in Appendices 1 and 2 to the Offer Document.

4. INFORMATION ON THE OFFEROR

The information on the Offeror, as set out below in italics, has been extracted from Section 8 of the Offer Document. Unless otherwise defined, all terms and expressions used in the extract below shall bear the same meanings as those defined in the Offer Document.

"***8. INFORMATION ON THE OFFEROR***

The Offeror, a Singapore Citizen, with his residential address at 106 Jalan Dusun #06-21 Ah Hood Gardens Singapore (320106), was appointed to the Board of the Company on 3 April 2018 and re-elected by shareholders of the Company on 26 April 2018 at the annual general meeting of the Company. As at the Latest Practicable Date, he continues to be the Non-Executive Deputy Chairman of the Board and the Non-Executive Chairman of the Investment Committee of the Company.

UOBKH, as the financial advisor to the Offeror in connection with the Offer, confirms that sufficient financial resources are available to the Offeror to satisfy full acceptances of the Offer on the basis of the Offer Price."

5. INFORMATION ON THE COMPANY

The information on the Company, as set out below in italics, has been extracted from Section 2 of Appendix 3 to the Offer Document. Unless otherwise defined, all terms and expressions used in the extract below shall bear the same meanings as those defined in the Offer Document.

"***2. PRINCIPAL ACTIVITIES AND SHARE CAPITAL***

Based on a search conducted with the ACRA as at the Latest Practicable Date, the Company is a public company limited by shares and was incorporated in Singapore on 13 October 2001. Its shares have been listed on the Mainboard of the SGX-ST since 7 May 2008.

Based on the Company's annual report for the financial year ended 31 December 2018, and, the Company website at https://darcowater.com as at the Latest Practicable Date, the Group is principally engaged in the business of water purification and wastewater treatment systems, including providing maintenance services for such systems and trading and supplying materials used in such systems."

Implied market capitalisation

As at the Latest Practicable Date, the Company has an issued and paid-up share capital comprising 93,831,492 Shares. Based on the Offer Price of S$0.17 per Share and the total number of issued Shares as at the Latest Practicable Date, the implied market capitalisation of the Company is approximately S$16.0 million.

Additional information on the Company is set out in Appendix 3 to the Offer Document and Appendix II to the Circular.

6. IRREVOCABLE UNDERTAKING

The information on the Irrevocable Undertaking, as set out below in italics, has been extracted from Section 14 of the Offer Document. Unless otherwise defined, all terms and expressions used in the extract below shall bear the same meanings as those defined in the Offer Document.

"***14.4 Irrevocable Undertaking***

As at the Latest Practicable Date, none of the Relevant Persons has received any irrevocable undertaking from any party to accept or reject the Offer."

7. RATIONALE FOR THE OFFER, OFFEROR'S INTENTION REGARDING THE COMPANY, THE LISTING STATUS OF THE COMPANY AND COMPULSORY ACQUISITION

The full text of the rationale for the Offer has been extracted from Sections 10, 11 and 13 of the Offer Document and is set out in italics below. Unless otherwise defined, all terms and expressions used in the extract below shall bear the same meanings as those defined in the Offer Document.

"***10 RATIONALE FOR THE OFFER***

10.1 Compliance with the Code

As a result of the Acquisition, the Offeror owned, controlled or agreed to acquire not less than 30% of the total number of Shares as at the Offer Announcement Date. Accordingly, the Offeror is required to make the Offer in compliance with Rule 14 of the Code.

10.2 Opportunity for Shareholders to Realise their Investment in Cash at a Premium

The Offer Price represents a premium of approximately 33.33% and 30.57% over the VWAP per Share for the 1-month and 3-month periods up to and including the Last Trading Day respectively, and a discount of approximately 15.88% and 20.49% to the VWAP per Share for the 6-month and 12 month periods up to and including the Last Trading Day respectively.

The Offer therefore presents Shareholders with an opportunity to realise up to their entire investment in the Shares in cash at a premium over the prevailing trading prices of the Shares without incurring brokerage and other trading costs.

11 THE OFFEROR'S INTENTIONS RELATING TO THE COMPANY

The Offeror currently intends for the Company to continue with its existing business activities and has no current intention to (a) introduce any major changes to the business of the Group, (b) re-deploy the fixed assets of the Group, or (c) discontinue the employment of the employees of the Group, other than in the normal course of business.

The Offeror retains the flexibility at any time to consider any options or opportunities which may present themselves and which the Offeror regards to be in the interest of the Offeror and/or the Company.

13 LISTING STATUS AND COMPULSORY ACQUISITION

13.1 Listing Status

Under Rule 1105 of the Listing Manual, upon the announcement by the Offeror that valid acceptances have been received pursuant to the Offer that brings the holdings owned by the Offeror and his Concert Parties to above 90% of the total number of issued Shares (excluding treasury shares), the SGX-ST may suspend the trading of the Shares on the SGX-ST until such time as it is satisfied that at least 10% of the total number of issued Shares (excluding treasury shares) are held by at least 500 Shareholders who are members of the public.

Under Rule 1303(1) of the Listing Manual, where the Offeror succeeds in garnering acceptances exceeding 90% of the total number of issued Shares (excluding treasury shares), thus causing the percentage of the total number of issued Shares (excluding treasury shares) held in public hands to fall below 10%, the SGX-ST will suspend trading of the Shares only at the close of the Offer.

Rule 723 of the Listing Manual requires the Company to ensure that at least 10% of the total number of issued Shares (excluding treasury shares) is at all times held by the public. In addition, under Rule 724(1) of the Listing Manual, if the percentage of the total number of issued Shares (excluding treasury shares) held in public hands falls below 10%, the Company must, as soon as practicable, announce that fact and the SGX-ST may suspend the trading of all the Shares. Rule 724(2) of the Listing Manual further states that the SGX-ST may allow the Company a period of three (3) months, or such longer period as the SGX-ST may agree, to raise the percentage of Shares in public hands to at least 10%, failing which the Company may be delisted from the SGX-ST.

It is the current intention of the Offeror to maintain the listing status of the Company on the SGX-ST following completion of the Offer. In the event that the percentage of Shares (the Company does not hold any treasury shares) held in public hands falls below 10% and the SGX-ST suspends trading of the Shares, the Offeror intends to undertake and/or support any action as may be necessary for any such trading suspension by the SGX-ST to be lifted.

However, the Offeror reserves the right to re-evaluate his position, taking into account, among other things, the level of acceptances received by the Offeror and the prevailing market conditions at the relevant time. Accordingly, there is no assurance that the Offeror will take steps to preserve the listing status of the Company on the SGX-ST if the percentage of Shares (the Company does not hold any treasury shares) held in public hands falls below 10%.

If the Offeror decides not to maintain the listing status of the Company on the SGX-ST after the Company loses its public float, the SGX-ST will generally consider waiving compliance imposed on a voluntary delisting if (a) the Offer is fair and reasonable (and the independent financial adviser to the Company has opined that the Offer is fair and reasonable), and (b) the Offeror has received acceptances from independent Shareholders at the close of the Offer that represent a majority of least 75% of the total number of issued Shares held by independent Shareholders (which refers to Shareholders other than the Offeror and his Concert Parties). The Offeror will make an announcement if it receives acceptances of the Offer in respect of 75% of the total number of issued Shares held by independent Shareholders.

If the waiver conditions are not met and the Company wishes to undertake a voluntary delisting, it will need to do so in accordance with Rule 1307 of the Listing Manual. In the event the Company is unable to meet the conditions for a voluntary delisting, the Company will be obliged to comply with the Listing Manual, including the requirement to restore its public float (through private placement or otherwise).

Shareholders and investors should note there is the risk that the Company may be subject to prolonged suspension should the free float be lost but the requisite conditions for a delisting are not met.

13.2 Compulsory Acquisition

*Pursuant to Section 215(1) of the Companies Act, if the Offeror receives valid acceptances of the Offer and/or acquires such number of Offer Shares from the Despatch Date otherwise than through valid acceptances of the Offer in respect of not less than 90% of the total number of issued Shares (excluding treasury shares and other than Shares already held by the Offeror as at the date of the Offer), the Offeror will be entitled to exercise the right to compulsorily acquire all the Shares of Shareholders who have not accepted the Offer ("**Dissenting Shareholders**") on the same terms as those offered under the Offer. Under Rule 1308(1)(b) of the Listing Manual, Rules 1307 and 1309 of the Listing Manual do not apply to a delisting pursuant to the Offer provided that the Offeror is exercising his right of compulsory acquisition. Accordingly, independent Shareholders' approval for the delisting under Rule 1307 of the Listing Manual is not required in the event the Offeror exercises his right of compulsory acquisition.*

As stated above, it is the current intention of the Offeror to maintain the listing status of the Company. Accordingly, the Offeror presently has no intention of exercising its right of compulsory acquisition under Section 215(1) of the Companies Act, should such right be available to it. However, as set out above, the Offeror reserves the right to re-evaluate his position, taking into account, among other things, the level of acceptances received by the Offeror and the prevailing market conditions at the relevant time.

Dissenting Shareholders have the right under and subject to Section 215(3) of the Companies Act, to require the Offeror to acquire their Shares at the Offer Price in the event that the Offeror or his nominees acquire, pursuant to the Offer, such number of Shares which, together with the Shares held by the Offeror or his nominees, comprise 90% or more of the total number of issued Shares. ***Dissenting Shareholders who wish to exercise such right are advised to seek their own independent legal advice.***"

8. ASSESSMENT OF THE FINANCIAL TERMS OF THE OFFER

In our assessment of the financial terms of the Offer, we have considered the following which we consider to be pertinent and to have a significant bearing on our assessment of the Offer:

(a) Market quotation and trading liquidity of the Shares;

(b) Historical financial performance of the Group;

(c) Financial position of the Group;

(d) Cash flow of the Group;

(e) Comparison with the valuation ratios of selected companies listed on the SGX-ST which are broadly comparable to the Group;

(f) Comparison with recently completed non-privatisation transactions ("**Non-Privatisation Transactions**") on the SGX-ST;

(g) Dividend track record of the Company; and

(h) Other relevant considerations.

The figures, underlying financial and market data used on our analysis, including securities prices, trading volumes, free float data and foreign exchange rates have been extracted from Bloomberg L.P., SGX-ST and other publicly available information as at the Latest Practicable Date or as provided by the Company where relevant. RHTC makes no representation or warranties, express or implied, as to the accuracy or completeness of such information.

8.1 Market quotation and trading liquidity of the Shares

We have compared the Offer Price against the historical market price performance of the Shares and considered the historical trading volume over the observation periods as discussed below.

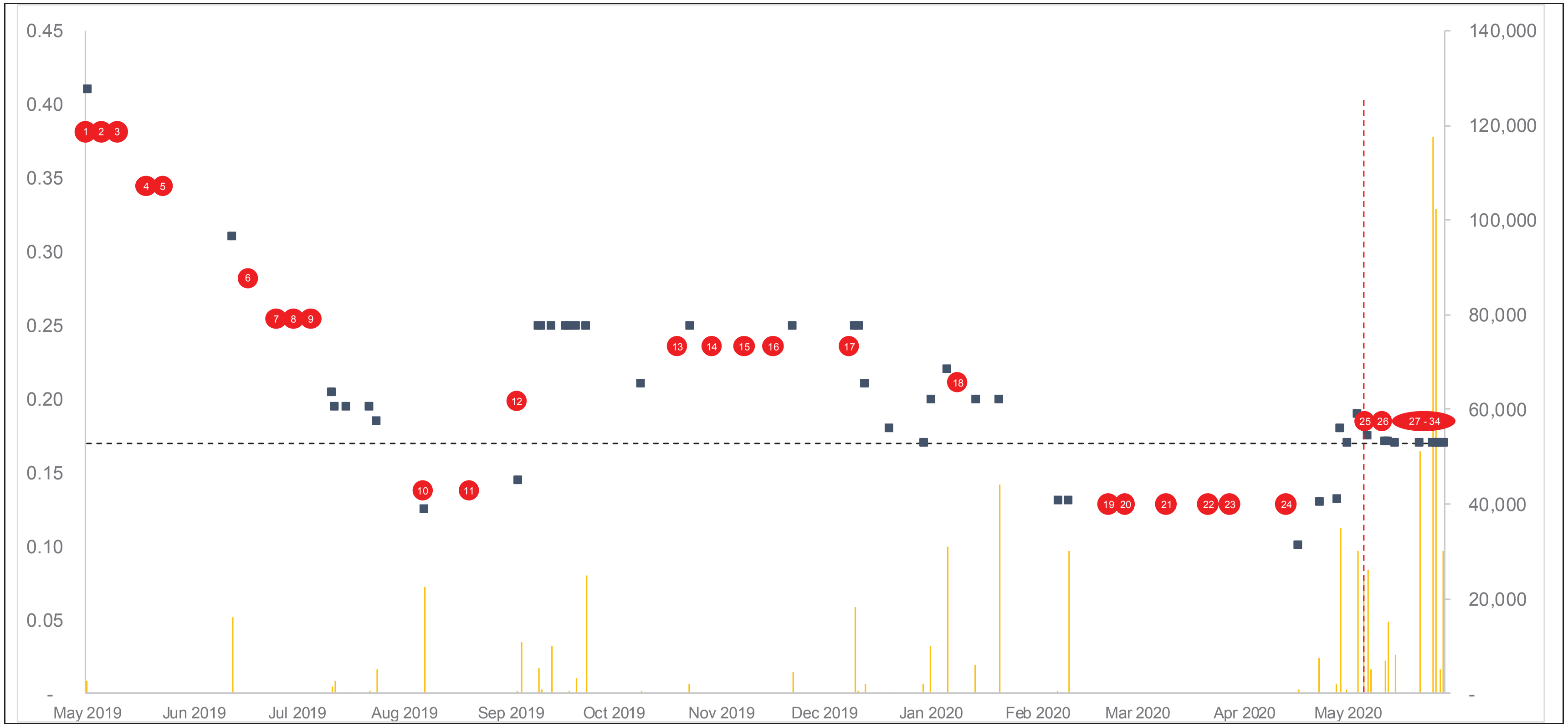
We note that trading of the Shares was halted after trading hours on 5 May 2020. The Offer Announcement was then released, followed by a response to the Offer Announcement by the Company to the Offer. The trading halt was subsequently lifted before trading hours on 6 May 2020.

We have therefore compared the Offer Price against the historical market price performance of the Shares and considered the historical trading volume of the Shares from 5 May 2019, being approximately a 1-year period prior to the release of the Offer Announcement and up to the Latest Practicable Date ("**Period Under Review**").

Share price chart

We set out below a chart showing the Offer Price relative to the daily last transacted prices and trading volume of the Shares for the Period Under Review.

Price movement and trading volume of the Shares for the Period Under Review



Source: *Bloomberg L.P.*

Significant announcements

(1) **9 May 2019**: The Company announced the resignation of Mr Oh Chee Sien as the Non-Executive Independent Director of the Company and other changes in the composition of the Board and Nominating Committee.

(2) **14 May 2019**: The Company announced the cessation of Mr Thye Kim Meng's service as the Managing Director and Chief Executive Officer ("**CEO**") of the Group, citing personal reasons due to fundamental disagreement with major shareholders on the objectives and strategic direction of the Group as a reason for his cessation.

(3) **16 May 2019**: The Company announced that a new CEO and Chief Operating Officer ("**COO**") had been identified. Mr Wang Yaoyu would serve as the Acting CEO until a new CEO was officially appointed.

(4) **27 May 2019**: The Company announced the appointment of Mr Poh Kok Hong as the new CEO and Executive Director of the Group.

(5) **29 May 2019**: The Company announced the appointment of Mr Zhao Yang Chang as the new COO of the Group.

(6) **24 June 2019**: The Group entered into a memorandum of understanding with CPG Vietnam Co. Ltd, a leading consulting and management services provider for the infrastructure and building industry, seeking to expand business opportunities by participating in tenders and cooperating with each other in respective specialised fields, which aims to enhance the Group's competitiveness in securing projects and deepening its penetration in Vietnam.

(7) **2 July 2019**: The Company announced it had entered into a subscription agreement which will increase in its shareholding interest in a joint venture company, Darco InfraCo Vietnam Water Pte. Ltd. which will undertake the development, implementation, financing, construction and operation of a portfolio of water supply projects in Vietnam, to 51.0% following completion of the subscription.

(8) **5 July 2019**: The Company announced the completion of the subscription of new shares in Darco InfraCo Vietnam Water Pte. Ltd., and now held 51.0% shareholding interest in it.

(9) **9 July 2019**: The Company announced that it held a ground breaking ceremony at the site of the future Ba Lai Water Supply Plant on 6 July 2019.

(10) **13 August 2019**: The Company announced its half year financial results for the period ending 30 June 2019.

(11) **26 August 2019**: The Company announced an update on its strategic direction and future business plans and highlighted its intention to focus on its core competencies in management in Environmental Systems and Water Management Services. The Group announced its intention to sell its interest and recover investments made previously in relation to the purchase of Con Dao Green Energy Co. Ltd., a Build-Own-Operate developer of Con Dao Solar Power Park in Vietnam ("**Con Dao Solar Project**").

(12) **9 September 2019**: The Company announced its entry into a supplemental agreement with Mr Wang Zhi to extend the deadline for asset injection of the Build-Operate-Transfer Gaoyi Domestic Waste Water Treatment Project which holds a 30-year concession on a waste water treatment plant from 23 March 2020 to 23 March 2022.

(13) **25 October 2019**: The Company announced that it had on 30 August 2019 entered into a non-binding letter of intent with Emsus Co. Ltd. in respect of the proposed acquisition by the Company of 75.0% of the total issued and paid-up share capital of PT Panghegar Energy Indonesia ("**PEI**"), an Indonesia-incorporated company that holds majority interest in an Indonesia-incorporated company which specialises in the operation of waste management facilities, and which has entered into a cooperation agreement with a regional government of Indonesia to provide waste management services in certain Indonesian cities and provinces.

(14) **4 November 2019**: The Company announced that it had entered into a conditional sale and purchase agreement in respect of the proposed acquisition of 75.0% shareholding interest in PEI for an aggregate consideration of US$1.5 million.

(15) **13 November 2019**: The Company announced the cessation of a key executive officer, Mr Thye Kim Fah, who was a director and a key management personnel of the Company's subsidiary, Darco Water Systems Sdn. Bhd.

(16) **21 November 2019**: The Company announced its entry into a loan agreement with Mr Wang Zhi for an aggregate of US$1.4 million (approximately S$2.0 million) at an interest of 5.0% per annum.

(17) **13 December 2019**: The Company announced a profit guidance in relation to its FY2019 financial results.

(18) **13 January 2020**: The Company announced the proposed placement of 18,700,000 Shares at S$0.35 for each Share ("**Proposed Placement**"), representing 19.9% of the existing paid up share capital of the Company at that point in time. 70.0% of the net proceeds from the Proposed Placement was intended to be allocated for strategic investments, acquisitions, alliances, joint ventures and/or expansion of businesses and the remaining 30.0% to working capital.

(19) **25 February 2020**: The Company announced that due to control measures implemented to control the COVID-19 outbreak in the People's Republic of China ("**PRC**"), it expected to result in significant adverse impact to WHKD's and consequently the Group's results for FY2020.

(20) **28 February 2020**: The Company announced its unaudited FY2019 financial results and pursuant to Rule 706A of the SGX-ST Listing Manual, PEI and PT Jabar Bersih Lestari ("**JBL**"), have become subsidiaries of the Company. The Company also announced that it had engaged a consultant to perform a due diligence on PEI and JBL.

(21) **12 March 2020**: The Company announced an extension of the cut-off date in relation to the placement agreements entered into with investors in respect of the Proposed Placement to 25 March 2020.

(22) **25 March 2020**: The Company announced lapse of the Proposed Placement.

(23) **30 March 2020**: The Company announced that due to the movement control order imposed to control the COVID-19 outbreak in Malaysia, it expected adverse impact to the Group's wholly owned subsidiary, Darco Water Systems Sdn. Bhd. and its entities, as well as the Group's results for FY2020.

(24) **16 April 2020**: The Company announced that it had carried out an extensive internal review of the transactions in relation to: (i) the Con Dao Solar Project; (ii) the Can Guioc Water Project; and (iii) transactions relating to Darco Engineering (Taiwan) ("**DET**") including loans that were granted to DET and the disposal of DET, which included a review of the terms and general conduct of the transactions as well as any conflict or potential conflict of interests. It noted that there were gaps in the information available in relation to such transactions, including the basis and rationale for certain actions or omissions noted and would not rule out making claims and taking formal legal action against any person whose action or omission has resulted in damage or loss suffered by the Group in connection with such transactions.

The Company was also in discussions with the counterparties in respect of the Con Dao Solar Project and the Can Guioc Water Project to determine the feasibility of continuing with the projects as well as recovery of the payments previously been made in advance should a decision be made to exit from any of such projects.

(25) **5 May 2020**: The Offeror announced the Offer.

(26) **8 May 2020**: The Offeror announced the Open Market Purchases of 800 Shares.

(27) **11 May 2020**: The Company announced the appointment of RHTC as the IFA.

(28) **22 May 2020**: The Offeror announced the Open Market Purchases of 8,000 Shares.

(29) **26 May 2020**: The Offeror announced the despatch of the Offer Document and related documents.

(30) **29 May 2020**: The Company announced that the consultant has completed the due diligence on PEI and JBL and recommended that certain terms of the cooperation agreement between JBL and the West Java Province Regional Government of Indonesia should be renegotiated in order to render the project viable. The Offeror announced the Open Market Purchases of 21,200 Shares.

(31) **2 June 2020**: The Offeror announced the Open Market Purchases of 117,600 Shares.

(32) **3 June 2020**: The Offeror announced the Open Market Purchases of 102,500 Shares.

(33) **4 June 2020**: The Company announced its audited FY2019 financial results and the material variances between the unaudited and audited financial statements for FY2019. The Offeror announced the Open Market Purchases of 5,000 Shares.

(34) **5 June 2020**: The Offeror announced the Open Market Purchases of 30,000 Shares.

From the share price chart above, we noted that the Shares have been on a downward trend for the Period Under Review. The Shares had traded between a high of S$0.41 (on 8 May 2019) and a low of S$0.10 (on 24 April 2020). The share price had declined from S$0.22 on 13 January 2020 to S$0.20 on 21 January 2020 to S$0.12 on 14 February 2020 to S$0.10 on 24 April 2020 and increased to S$0.13 on 30 April 2020, being the last trading day prior to the release of the Offer Announcement. However, the Shares are also very thinly traded, trading on only 33 days out of a total of 261 market days during the 1-year period prior to the release of the Offer Announcement.

Market statistics

In addition to the share price chart above, we have tabulated below selected statistical information on the share price performance and trading liquidity of the Shares for the Period Under Review:

	Highest traded price (S$)	Lowest traded price (S$)	VWAP[(1)] (S$)	Premium / (Discount) of Offer Price over / (to) VWAP (%)	Number of traded days	Average daily traded volume[(2)] ('000)	Average daily traded volume as a percentage of free float[(3)] (%)
Prior to the Offer Announcement Date							
Last 1 month	0.130	0.101	0.128	33.3	2	4	0.02
Last 3 months	0.131	0.101	0.130	30.6	4	10	0.04
Last 6 months	0.350	0.101	0.202	(15.9)	14	11	0.05
Last 1 year	0.410	0.101	0.214	(20.5)	33	8	0.03
As at 30 April 2020, being the last traded day prior to the Offer Announce-ment Date	0.130	0.130	0.130	30.8	1	8	0.03
After the Offer Announcement Date to the Latest Practicable Date							
After the Offer Announce-ment Date and up to the Latest Practicable Date	0.210	0.170	0.175	(2.8)	13	33	0.14

We note that no shares were traded as at the Latest Practicable Date.

Source: *Bloomberg L.P.*

Notes:

(1) The VWAP is calculated based on the turnover divided by volume of the Shares as extracted from Bloomberg L.P..

(2) The average daily trading volume of the Shares was computed based on the total volume of Shares traded during the relevant periods, divided by the number of days that were open for trading (excluding public holidays and days with full day trading halts on the Shares) during that period.

(3) Free float refers to the Shares other than those held by the Directors, chief executive officer, controlling Shareholders or substantial Shareholders of the Company and amounts to approximately 23.5 million Shares representing approximately 25.1% of the issued Shares as disclosed in the Company's annual report for FY2019.

Based on the above, we observe the following with regards to the share price performance of the Company for the Period Under Review:

(a) The Offer Price represents a premium of approximately 30.8% over the VWAP of the Shares of S$0.130 on 30 April 2020, being the day when the Shares were last traded prior to the release of the Offer Announcement.

(b) The Offer Price represents a premium of approximately 33.3% and 30.6% above the VWAP of the Shares for 1-month and 3-month periods prior to the release of the Offer Announcement respectively.

(c) The Offer Price represents a discount of approximately 15.9% and 20.5% below the VWAP of the Shares for 6-month and 1-year periods prior to the release of the Offer Announcement respectively.

(d) Over the 1-year period prior to the release of the Offer Announcement, the Shares have traded between a low of S$0.101 and a high of S$0.410. The Offer Price represents a premium of S$0.069 (or 68.3%) above the lowest transacted price and a discount of S$0.240 (or 58.5%) to the highest transacted price of the Shares. As mentioned earlier, the Share Price has been on a downward trend for the 1-year period prior to the release of the Offer Announcement.

(e) As mentioned above, the Shares were only traded on 33 days. We noted that out of these 33 traded days, the Shares have closed at or above the Offer Price on 27 of these 33 traded days, representing 81.8% of the total traded days of the Shares.

(f) For the period from the release of the Offer Announcement Date to the Latest Practicable Date, the Shares have traded between a low of S$0.170 (at Offer Price) and a high of S$0.210. The Offer Price represents a discount of S$0.04 (or 19.0%) to the highest transacted price of the Shares. The Shares have closed at or above the Offer Price on all 13 traded days from the Offer Announcement Date to the Latest Practicable Date.

(g) No Shares were traded on 5 June 2020, being the Latest Practicable Date.

We observed the following with regards to the trading liquidity of the Shares:

(i) Over the 1-year period prior to the release of the Offer Announcement Date, as above, the Shares were only traded on 33 days out of 261 market days. The average daily trading volume of the Shares for the 1-month, 3-month, 6-month and 1-year periods prior to the release of the Offer Announcement represent 0.02%, 0.04%, 0.05%, and 0.03% of the free float of the Shares respectively.

(ii) During the period following the release of the Offer Announcement up to the Latest Practicable Date, the average daily trading volume on the Shares was approximately 33,000 Shares, representing 0.14% of the free float of the Shares.

Summary

In summary, the Shares are thinly traded on the SGX-ST, and in the 1-year period prior to the Offer Announcement Date, out of the days the Shares were traded, in 81.8% of these traded days, the transacted price had been at or higher than the Offer Price.

8.2 Historical financial performance of the Group

For the purpose of evaluating the financial terms of the Offer, we have considered the audited financial results of the Group for the financial years ended 31 December ("**FY**") 2017, 2018 and 2019. The following summary of the financial information should be read in conjunction with the full text of the Group's audited financial statements for FY2017, FY2018 and FY2019 in respect of the relevant financial periods including the notes thereto.

	Audited		
(S$'000)	**FY2017**	**FY2018**	**FY2019**
Revenue	60,731	83,832	74,801
Cost of sales	(46,125)	(69,874)	(64,802)
Gross Profit	14,606	13,958	9,999
Other income	1,267	679	451
Expenses			
Distribution expenses	(1,743)	(2,147)	(1,733)
Administrative expenses	(11,921)	(13,117)	(16,294)
Write-back / (Provision) of impairment loss on financial assets	4	(506)	(3,771)
Finance costs	(273)	(585)	(550)
Profit / (Loss) before income tax	1,940	(1,718)	(11,898)
Income tax (expense) / credit	(712)	(92)	417
Profit / (Loss) for the financial year	**1,228**	**(1,810)**	**(11,481)**
Profit / (Loss) for the year attributable to:			
Equity holders of the Company	**611**	**(1,441)**	**(8,829)**
Non-controlling interest	617	(369)	(2,652)
	1,228	**(1,810)**	**(11,481)**

Source: *Group's audited financial statements for FY2017, FY2018 and FY2019.*

Project pipeline of the Group

We have set out the summary of the projects which were announced by the Company during the Period Under Review in the table below:

Announcement Date	Details	Location
10 July 2017	The Company commenced the Forward Osmosis Pilot Project with Aquaporin Asia Pte. Ltd. ("**Aquaporin Asia**"), a Singapore-based subsidiary of Aquaporin A/S ("**Aquaporin**"), following announcement of a joint collaboration under Aquaporin Asia's 3-year forward osmosis project on 1 April 2016. The project is supported by Singapore National Research Foundation under its Environment & Water Research Programme and administered by the Public Utilities Board. The Group will collaborate with Aquaporin Asia to jointly pilot low-energy Zero Liquid Discharge ("**ZLD**") systems for industrial wastewater treatment based on the Aquaporin's forward osmosis technology. The Group will use its own wastewater treatment know-how to incorporate Aquaporin Asia's forward osmosis membranes into the Group's overall system as pilot plant scale test units in application for different industries. The ZLD system will require relatively lower energy and incur lesser operating costs than conventional ZLD systems utilising reverse osmosis.	Singapore
20 July 2017	The Company entered into a cooperative framework agreement with Northern Ecological Environment Municipal Engineering Technology Co., Ltd. for a period of two (2) years to develop environmental protection related projects, with a focus on exploring business opportunities in the areas of sludge treatment, organic waste treatment, wastewater treatment, desalination and industrial water treatment.	PRC
20 July 2017	The Group received an investment certificate for a drinking water project for a daily designed water treatment facility with a capacity of 15,000 m^3 that aims to serve clean drinking water to approximately 200,000 residents. The project will be constructed on a Build-Operate-Transfer basis and has a concession period of 50 years. A ground-breaking ceremony was held on 6 July 2019 at the site of the future Ba Lai Water Supply Plant.	Vietnam
11 September 2017	A consortium comprising of the Company's subsidiary, Darco Water Systems Sdn. Bhd. (Malaysia), Q2 A/S and Pt. Fitama Putri Mandiri secured a landfill gas recovery and conversion project which involved biogas harvesting from gas wells in the landfill covered with liners made from High Density Polyethylene. The harvested biogas will be cleaned and converted into electrical energy which will be supplied to a grid.	Indonesia
21 September 2017	The Group, through International Enterprise Singapore's facilitation, entered into a partnership with InfraCo Asia Development Pte. Ltd., a commercially-managed infrastructure development company on a Design, Build, Own, Operate ("**DBOO**") model for four (4) municipal water treatment projects targeted to provide up to 62,000 m^3 of water which will benefit approximately 500,000 residents. The project has a concession period of 50 years and is the first project where the Group adopted a DBOO model in Vietnam, allowing it to transform to an asset ownership model for its overseas growth.	Vietnam
24 April 2018	The Group's wholly owned subsidiary, Ness Plus Trading Sdn. Bhd. signed the first exclusive distribution agreement with Aquaporin in Malaysia, which allowed it to distribute revolutionary products containing the Aquaporin's forward osmosis technology in Malaysia and Singapore.	Singapore and Malaysia

Announcement Date	Details	Location
12 Jun 2018	The Group's subsidiary, Wuhan Kaidi Water Services Co., Ltd. ("**WHKD**") was awarded three (3) contracts for: (i) the capacity expansion of the water reuse facility of one of the largest thermal power plants located in southern Hebei, China; (ii) a zero liquid discharge wastewater treatment and water reuse project; and (iii) the provision construction services to a water reuse facility in an industrial park which manufactures high performance resin. The adoption of the Group's water reuse system will allow the facility's water output quality to meet stringent requirements stipulated in the "Guidelines for Refinery and Chemical Enterprises in Managing Wastewater Reuse".	PRC
13 August 2018	The Group had clinched several contracts involving, *inter alia*, the: (i) delivery of a 4,000 m^3/day ultrapure water treatment package consisting of reverse osmosis and deionization systems, and a 2,000 m^3/day wastewater treatment package to ASM Technology (M) Sdn Bhd, the world's top player in semiconductor packaging and assembly equipment industry, which is also ranked as the Top 100 Global Technology Leaders in 2018 by Thomson Reuters; (ii) designing and building an ultrapure water system with a treatment capacity of 70 m^3/hour, as well as a lifting batch tank system to collect the wastewater generated; and (iii) retrofitting of Teck Ghee Estate with the District Pneumatic Waste Conveyance System ("**PWCS**"), a sustainable and green initiative by the Housing Development Board which has been made mandatory for developments with 500 housing units and above from April 2018, and involves the transportation of waste from rubbish chutes to a centralized bin centre via a network of pipes under or above-ground, removing the need for manual waste collection and is a more efficient, manpower-light approach to waste collection within estates, while reducing pest and odour nuisance resulting from exposed waste at the same time. The Group will also be involved in the maintenance of the PWCS over the next 10 years, generating a recurring income stream for the Group.	Malaysia, Vietnam, Pakistan, Indonesia and Singapore
25 October 2019	As set out in Section 8.1 of this Letter, the Company announced that it had on 30 August 2019 entered into a non-binding letter of intent with Emsus Co. Ltd. in respect of the proposed acquisition by the Company of 75.0% of the total issued and paid-up share capital of PEI, an Indonesia-incorporated company that holds majority interest in an Indonesia-incorporated company which specialises in the operation of waste management facilities, and which has entered into a cooperation agreement with West Java Province Regional Government of Indonesia ("**West Java Government**") to provide waste management services in certain Indonesian cities and provinces ("**Project Nambo**"). On 4 November 2019, the had entered into a conditional sale and purchase agreement ("**CSPA**") in respect of the proposed acquisition of 75.0% shareholding interest in PEI for an aggregate consideration of US$1.5 million ("**PEI Acquisition**"). Pursuant to the CSPA, the Company has been granted an option to reverse and unwind the PEI Acquisition ("**Reversal Option**") if the conditions subsequent are not satisfied.	Indonesia

We wish to highlight that the list of project pipeline of the Group is by no means exhaustive and has been compiled based on publicly available information as at the Latest Practicable Date.

FY2017 vs FY2018

Revenue of the Group increased by S$23.1 million or 38.0% from S$60.7 million in FY2017 to S$83.8 million in FY2018. Revenue from Engineered Environmental System ("**EE Systems**") segment increased from S$40.7 million in FY2017 to S$63.7 million in FY2018 mainly due to higher contribution from the Engineering, Procurement, and Construction ("**EPC**") projects in the PRC and Malaysia. Revenue from Water Management Services ("**WM Services**") segment decreased from S$10.7 million in FY2017 to S$8.4 million in FY2018 following the sale of Darco Youli Medical Waste operations in Taiwan ("**Darco Youli**"), resulting in no service revenue contribution from that subsidiary (as per announcement dated 16 June 2017, the Group has entered into two separate sale and purchase agreements for the disposal of Darco Youli, which was completed on 30 September 2017). Sales from trading of chemical, spare parts and others increased from S$9.3 million in FY2017 to S$11.7 million in FY2018 mainly due to higher trading volume of parts in Malaysia to its water treatment customers in Malaysia.

The Group's overall gross profit was maintained at S$14.0 million in FY2018 as compared to S$14.6 million in FY2017. However, the Group's overall gross profit margin decreased from 24.1% in FY2017 to 16.7% in FY2018. Due to the stiff competition in the PRC market, the Group had to lower its profit margin when tendering and securing larger contracts in the PRC. As the PRC is one of the Group's major market segments, the lower margin for projects in the PRC had significantly reduced the Group's profit margin for the year.

The Group's other income decreased by S$0.6 million or 46.4% from S$1.3 million in FY2017 to S$0.7 million in FY2018, in the absence of a one-off reversal amount of S$1.0 million due to a contract customer, as reflected in FY2017. In FY2017, the Management had then determined that a project that was included in a contract order signed in July 2015, had no prospect of completion. Accordingly, the reversal of the amount due to contract customer in relation to that project has been made in FY2017. The above mentioned decrease was partially offset by the increased in government grant income which increased from S$151,000 in FY2017 to S$389,000 in FY2018.

The Group's distribution expenses increased S$0.4 million or 23.2% from S$1.7 million in FY2017 to S$2.1 million in FY2018 mainly due to higher marketing costs incurred in the PRC. The increase in sales and marketing expenses was mainly due to the subsidiary in the PRC participating in more tenders and securing larger EPC projects in the PRC. Administrative expenses which comprise of staff salary, professional fees, rental and other operating expenses, increased slightly from S$11.9 million in FY2017 to S$13.1 million in FY2018, mainly due to the following reasons:

(i) the Group's expenditure of S$0.5 million in FY2018 for the developmental costs of concession projects in Vietnam. This includes professional fees paid in engaging technical and legal consultants in Vietnam;

(ii) the research and development costs increased from S$1.0 million in FY2017 to S$1.4 million in FY2018. Research and development costs were mainly incurred by the subsidiary in the PRC in performing water treatment research and development technology; and

(iii) impairment for trade receivables and contract assets amounting to S$0.6 million had been made under the new SFRS(I) 9.

Finance costs increased by S$0.3 million from S$0.3 million in FY2017 to S$0.6 million in FY2018 mainly due to the newly secured borrowings of S$4.0 million from a shareholder, which was used to fund working capital in the PRC. Additionally, there was a higher utilisation of bank overdraft and trust receipts facilities in Singapore and Malaysia in FY2018.

Income tax expenses decreased by S$0.6 million in FY2017 from S$0.7 million to S$0.1 million in FY2018 mainly due to the lower provision of income tax resulting from lower profit generated from the subsidiary in the PRC and reversal of deferred tax liabilities amounting to S$0.3 million in FY2018.

FY2018 vs FY2019

Revenue of the Group decreased by S$9.0 million or 10.8% from S$83.8 million in FY2018 to S$74.8 million in FY2019. Revenue from EE Systems segment decreased from S$63.7 million in FY2018 to S$53.7 million in FY2019 mainly due to lower contribution from the EPC projects in the PRC and Malaysia. Revenue from WM Services segment remain stable at S$8.3 million in FY2019. The above decrease was partly offset by higher sales from trading of chemical, spare parts and others increased from S$11.7 million in FY2018 to S$12.8 million in FY2019 mainly due to higher trading volume of parts and chemical in Malaysia to its water treatment customers in Malaysia.

The Group's overall gross profit reduced by S$4.0 million or 28.4% from S$14.0 million in FY2018 to S$10.0 million in FY2019. Similarly, as mentioned above, the lower margin for the PRC projects has significantly reduced the Group's profit margin from 16.6% in FY2018 to 13.4% in FY2019.

The Group's other income decreased by S$0.2 million or 33.6% from S$0.7 million in FY2018 to S$0.5 million in FY2019. This was mainly due to the decrease in government grant income from S$0.4 million in FY2018 to S$0.2 million in FY2019.

The Group's distribution expenses decreased by S$0.4 million or 19.3% from S$2.1 million in FY2018 to S$1.7 million in FY2019 mainly due to lower marketing costs incurred in the PRC. The decrease in sales and marketing expenses was in line with the reduction in the Group's revenue.

Administrative expenses which comprise of staff salary, professional fees, depreciation and other operating expenses, increased by S$3.2 million or 24.2% from S$13.1 million in FY2018 to S$16.3 million in FY2019, mainly due to the impairment of intangible assets amounting to S$2.9 million.

Impairment loss on financial assets of S$3.8 million were mainly the one-off impairment for: (i) contract assets in the PRC amounting to S$1.9 million; (ii) trade receivables in the PRC and Malaysia amounting to S$1.1 million; and (iii) other receivables in the PRC, Malaysia and Taiwan amounting to S$0.7 million.

Finance costs decreased slightly to S$0.6 million in FY2019. This was mainly due to lower utilisation of trade line facilities from the bank, as a result of lower sales during the year.

The Group recorded an income tax credit of $$0.4 million in FY2019.

8.3 Financial position of the Group

A summary of the audited financial position of the Group as at 31 December 2019 is set out below:

(S$'000)	Audited As at 31 December 2019
Non-current assets	
Property, plant and equipment	7,630
Right-of-use assets	715
Intangible assets	3,593
Deferred tax assets	653
Current assets	
Inventories	6,186
Trade and other receivables	62,507
Income tax recoverable	143
Cash and bank balances	27,420
Total assets	108,847
Current liabilities	
Trade and other payables	52,592
Borrowings	10,940
Lease liabilities	323
Derivative financial instrument	3
Income tax payable	264
Non-current liabilities	
Borrowings	1,310
Lease liabilities	242
Deferred tax liabilities	28
Total liabilities	65,702
Total equity	43,145
(Less) Non-controlling interests	(3,261)
Equity attributable to owners of the parent	**39,884**
Net tangible assets ("NTA") (S$'000)	**36,291**
Number of Shares ('000)	**93,831.5**
NTA per Share (S$)	**0.39**
(Discount) of the Offer Price to the NTA per Share (%)	**(56.4)**
Price-to-NTA ("P/NTA") ratio as implied by the Offer Price (times)	**0.44**

Source: *Group's audited financial statements for FY2019*

Assets of the Group

As at 31 December 2019, the assets of the Group of S$108.8 million comprised mainly: (i) trade and other receivables of S$62.5 million; (ii) cash and bank balances of S$27.4 million; (iii) property, plant and equipment of S$7.6 million; (iv) inventories of S$6.2 million; and (v) intangible assets of S$3.6 million, representing approximately 57.4%, 25.2%, 7.0%, 5.7% and 3.3% of the Group's total assets respectively.

We note that a large proportion, 88.4% of the assets of the Group are current in nature. The remaining 11.6% of the assets of the Group are non-current in nature, the bulk of which are plant and equipment and intangible assets.

Trade and other receivables

As at 31 December 2019, the trade and other receivables of the Group amounted to S$62.5 million, mainly comprising: (i) trade receivables of S$32.2 million; (ii) contract assets of S$16.3 million; and (iii) other receivables, deposits and prepayments of S$14.0 million. Trade receivables are non-interest bearing and generally on 30 to 90 days credit terms. The contract assets relate to the unbilled work in progress projects in the PRC. Other receivables consist mainly the advance payments to the suppliers of S$7.9 million and (ii) refundable deposits of S$4.1 million.

Cash and cash equivalents

As at 31 December 2019, the cash and cash equivalents of the Group amounted to S$27.4 million, comprising mainly: (i) cash and bank balances of S$21.5 million; and (ii) fixed deposits with the banks of S$5.9 million. Fixed deposits of the Group bear interest rates ranging from 0% to 5.02% per annum and have a maturity period ranging from 1 to 7 months.

As at 31 December 2019, the Group has bank balances placed with banks in the PRC denominated in Chinese Renminbi ("**RMB**") amounting to S$7.7 million or RMB39.7 million. The RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to the initial recognition, property, plant and equipment except for freehold lands are stated at cost less accumulated depreciation and any accumulated impairment losses.

Construction in progress includes all cost of construction and other direct costs. Construction in progress is reclassified to the appropriate category of property, plant and equipment when complete and ready to use.

Freehold lands and construction-in-progress are not depreciated. All other items of property, plant and equipment are depreciated using the straight-line method to write-off the cost over a period of three to 50 years.

As at 31 December 2019, property, plant and equipment mainly consists of: (i) leasehold lands and buildings of S$2.3 million; (ii) construction in progress of S$2.0 million; (iii) freehold lands of S$1.6 million; (iv) freehold buildings of S$0.6 million; and (v) plant and equipment of S$0.6 million.

Inventories

Inventories are stated at the lower of cost and net realisable value. Raw materials and trading goods comprise of all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. These costs are assigned on a weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to be incurred for selling and distribution.

Where necessary, allowance is provided for damage, obsolete and slow-moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Intangible assets

As at 31 December 2019, the Group's intangible assets amounted to S$3.6 million which comprising mainly the goodwill on consolidation of S$3.4 million; and (ii) patented technologies and license of $0.1 million.

Goodwill on acquisition of subsidiaries or businesses represents the excess of (i) the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquire and the acquisition-date fair value of any previously-held equity interest in the acquiree over (ii) the fair value of the net identifiable assets acquired net of the fair values of the liabilities and any contingent liabilities assumed.

Goodwill acquired through business combinations are allocated to the Group's cash-generating units (CGUs) that are expected to benefit from that business combinations. The carrying amount of goodwill before impairment which had been allocated to CGUs within the EE Systems segment: (i) Indonesia – S$2.5 million which pertains to Project Nambo or the PEI Group; and (ii) Singapore – S$0.9 million, which pertains to its subsidiary PV Vacuum Engineering Pte. Ltd..

Patented technologies are measured at fair value less accumulated amortisation and accumulated impairment losses. The costs are amortised to profit or loss using the straight-line method over the estimated useful lives of five years.

Liabilities of the Group

The corresponding liabilities of the Group of S$65.7 million comprised mainly: (i) trade and other payables of S$52.6 million; (ii) short term borrowings of S$10.9 million; and (iii) long term borrowings of S$1.3 million, representing approximately 80.0%, 16.7% and 2.0% of the Group's total liabilities respectively.

We note that a large proportion, 97.6% of the liabilities of the Group, are short-term in nature. However, as at 31 December 2019, the Group's current ratio is 1.5 times which implies that the Group has sufficient current assets to cover the current liabilities.

Trade and other payables

As at 31 December 2019, the trade and other payables of the Group amounted to S$52.6 million, mainly comprising: (i) contract liabilities of S$27.4 million; (ii) trade payable of S$18.8 million; (iii) other payables of S$3.3 million; and (iv) accruals of S$3.0 million. The contract liabilities relate to the advances received from customers.

Borrowings of the Group

As at 31 December 2019, the borrowing of the Group amounted to S$12.3 million comprised mainly: (i) loan from the Offeror amounting to S$4.0 million ("**Loan A"**); (ii) Bank overdraft of S$2.1 million; (iii) trust receipts of $2.0 million; and (iv) loan from the Offeror amounting to US$1.0 million (equivalent to approximately S$1.3 million) ("**Loan B**").

Loan A was granted as part of the conditions precedent to the placement of placement of 27,680,000 new shares by the Company to Mr Wang Zhi, the Offeror, ("**WZ Placement**"), which has been completed on 23 March 2018. Loan A was granted for working capital of WHKD, a subsidiary of the Group.

Loan A shall be repayable within 24 months from the completion date of WZ Placement (i.e. March 2020 which is further extended for 24 months to March 2022) or upon completion of the transfer of a water treatment asset or concession by him to the Group, whichever is earlier, and the Company bears an interest of 5.0% per annum, to be paid quarterly in arrears.

Loan B was granted for the purpose of funding the costs and expenses incurred in relation to the PEI Acquisition, which was completed on 12 December 2019. The Company bears an interest of 5.0% per annum and to be repaid on 21 November 2020.

The bank overdrafts are secured by freehold land and building of a subsidiary and by corporate guarantee from the Company and bears an effective interest rate of 7.70% to 8.14% per annum.

Trust receipts are drawn for a period ranging from 20 days to 90 days and bear effective interest rates ranging from 0.05% to 7.20% per annum. The trust receipts are secured by way of corporate guarantee from the Company, the fixed deposits of the Group, certain freehold lands and buildings of the Group.

Post balance sheet events

Loan A

As stated in the Circular, as at the Latest Practicable Date, Loan A had been fully repaid. The repayment of loan has no net impact on the Group's NTA as at 31 December 2019 as a reduction in assets was matched with a corresponding decrease in liabilities.

Project Nambo

As set out in Sections 8.1 and 8.2 of this Letter, the Company had announced the PEI Acquisition on 4 November 2019. Pursuant to the CSPA, the Company has been granted a Reversal Option to reverse and unwind the PEI Acquisition if the conditions subsequent are not satisfied.

As of 12 December 2019, the 75.0% equity shares in PEI has been transferred to the Company, as such, PEI and JBL (an 80.0% owned subsidiary of PEI) (collectively, "**PEI Group**") became subsidiaries of the Group. Based on the notes to the audited financial statements for FY2019, the PEI Group was in an identifiable net liabilities position of S$566,000 and the PEI Group was carried on the Group's balance sheet as goodwill, with a carrying amount of approximately S$2.5 million.

On 29 May 2020, the Company updated the Shareholders that the third party consultancy firm ("**Consultant**") had completed the due diligence on the PEI Group and recommended that certain terms of the cooperation agreement between JBL and the West Java Government ("**Cooperation Agreement**") in relation to Project Nambo should be renegotiated in order to render the project viable.

We noted on 8 June 2020, the Company announced that, as at the date of the announcement: (i) JBL has made formal submission to the West Java Government which, among others, explain the findings of the Consultant and request for the re-negotiation of and modifications to the relevant terms of the Cooperation Agreement as recommended by the Consultant; and (ii) other than a follow-up call received from the representative of the West Java Government which sought certain clarification on JBL's aforesaid submission, JBL is awaiting for a response from the West Java Government to its request for the re-negotiation to render the project viable.

We further understand from the Management that under the existing terms of the Cooperation Agreement, JBL is required to commence operations by 12 June 2020, failing which liquidated damages determined to be approximately US$46,000 per day of delay (up to 180 days) is potentially chargeable to JBL.

In this regard, JBL intends to include as part of the aforesaid re-negotiation, a request for the extension of the aforesaid deadline. Should such extension be not agreed to by the West Java Government and significant amount of liquidated damages is claimed against JBL, the Company is expected to exercise the Reversal Option to reverse and unwind the PEI Acquisition. Upon the completion of the exercise of the Reversal Option, the PEI Group will cease to be subsidiaries of the Company and will be treated as discontinued business of the Company for accounting purposes, thereby eliminating the adverse impact of the liquidated damages claimed against JBL on the financial position of the Company.

For the avoidance of doubt, any liquidated damages imposed are the obligations of JBL and the Company has not given any guarantee or indemnity to pay for such liquidated damages that are not paid by JBL, if and when due.

Considering the uncertainty of the outcome of the re-negotiation with West Java Government as at the date of this Letter, and given that the PEI Group is carried on the Group's balance sheet as an intangible asset (Goodwill), we have taken the conservative stance to base our evaluation on the NTA of the Group as at 31 December 2019 instead of the net asset value ("**NAV**") of the Group as at 31 December 2019.

NTA of the Group

Accordingly, the NTA of the Group as at 31 December 2019 was S$36.3 million, representing NTA per Share of S$0.39 based on 93,831,492 Shares as at 31 December 2019.

In our evaluation of the financial terms of the Offer, we have also considered whether there is any other asset which should be valued at an amount that is materially different from that which was recorded in the statement of financial position of the Group as at 31 December 2019 and whether there are any factors which have not been otherwise disclosed in the financial statements of the Group that are likely to impact the NTA of the Group as at 31 December 2019.

In respect of the above, we have sought the following confirmation from the Directors and Management, and they confirmed to us that as at the Latest Practicable Date, to the best of their knowledge and belief that:

(i) there are no material differences between realisable values of Group's assets and their respective book values as at 31 December 2019 which would have material impact on the NTA of the Group.

(ii) other than that already provided for or disclosed in the Group's financial statements as at 31 December 2019, there are no other contingent liabilities, bad or doubtful debts or material events which would likely have a material impact on the NTA of the Group as at the Latest Practicable Date.

(iii) save as disclosed in the IFA Letter, there are no litigation, claim or proceedings pending or threatened against the Company or Group or of any fact likely to give rise to any proceedings which might materially and adversely affect the financial position of the Company and Group.

(iv) save as disclosed in the IFA Letter, there are no other intangible assets and which ought to be disclosed in the statement of financial position of the Group in accordance with the Singapore Financial Reporting Standards (International) and which have not been so disclosed and where such intangible assets would have had a material impact on the overall financial position of the Group.

(v) save as disclosed in the IFA Letter, there are no material acquisitions or disposals of assets by the Group between 31 December 2019 and the Latest Practicable Date and the Group does not have any plans for any such impending material acquisition or disposal of assets, conversion of the use of the Group's material assets or material change in the nature of the Group's business.

8.4 Cash flow of the Group

		Audited	
(S$'000)	FY2017	FY2018	FY2019
Net cash generated from/(used in) operating activities	(2,601)	(6,926)	(1,460)
Net cash used in investing activities	(295)	(361)	(3,641)
Net cash from financing activities	12,868	14,766	2,832
Net increase in cash and cash equivalents	**9,972**	**7,479**	**(2,269)**
Cash and cash equivalent at the beginning of the financial year	5,494	15,379	22,673
Effect of exchange rate changes on cash and cash equivalents	(87)	(185)	(225)
Cash and cash equivalents at end of financial year	**15,379**	**22,673**	**20,179**

Source: *Group's audited financial statements for FY2017, FY2018 and FY2019.*

FY2017

In FY2017, the Group recorded a net cash outflow from operating activities of S$2.6 million, which was a result of operating profit before movement in working capital of S$3.9 million, adjusted for net working capital outflow of approximately S$6.2 million. The net working capital outflow was mainly due to: (i) an increase of S$9.4 million in trade and other receivables; and (ii) an increase of S$1.1 million in inventories and were partially offset by an increase of S$4.1 million in trade and other payables.

Net cash outflow in investing activities amounted to approximately S$0.3 million, which was attributable to the purchase of plant and equipment and partially offset by the sales of a subsidiary.

Net cash inflow from financing activities amounted to approximately S$12.9 million, which mainly was attributable to: (i) placement monies received in advance; (ii) proceeds from issuance of new shares; and (iii) proceeds from borrowings and were partially offset by repayment of borrowings.

As at 31 December 2017, the Group's cash and cash equivalents (net of bank overdraft and pledged fixed deposits and bank balances) were S$15.4 million.

FY2018

In FY2018, the Group recorded a net cash outflow from operating activities of S$6.9 million, which was a result of operating profit before movement in working capital of S$1.8 million, adjusted for net working capital outflow of approximately S$7.8 million. The net working capital outflow was mainly due to: (i) an increase of S$4.6 million in contract assets; (ii) an increase of S$3.9 million in trade and other receivables; (iii) increase in fixed deposits of S$2.0 million; and (iv) an increase of S$1.1 million in inventories and were partially offset by an increase of S$3.8 million in trade and other payables.

Net cash outflow in investing activities amounted to approximately S$0.4 million, which was attributable to the purchase of plant and equipment.

Net cash inflow from financing activities amounted to approximately S$14.8 million, which mainly was attributable to (i) proceeds from issuance of new shares; and (ii) proceeds from borrowings and were partially offset by repayment of borrowings.

As at 31 December 2018, the Group's cash and cash equivalents (net of bank overdraft and pledged fixed deposits and bank balances) were S$22.7 million.

FY2019

In FY2019, the Group recorded a net cash outflow from operating activities of S$1.5 million, which was a result of operating loss before movement in working capital of S$0.5 million, adjusted for net working capital outflow of approximately S$0.6 million. The net working capital outflow was mainly due to: (i) an decrease of S$18.0 million in contract assets; (ii) an increase of S$16.6 million in trade and other receivables; (iii) an increase of S$3.3 million in inventories; and (iv) increase in fixed deposits of S$1.4 million; and were partially offset by an increase of S$2.7 million in trade and other payables.

Net cash outflow in investing activities amounted to approximately S$3.6 million, which was attributable to: (i) acquisition of subsidiaries; and (ii) the purchase of plant and equipment and partially offset by the disposal of property, plant and equipment.

Net cash inflow from financing activities amounted to approximately S$2.8 million, which mainly was attributable to (i) the proceeds from borrowings; and (ii) partial disposal of a subsidiary and were partially offset by repayment of borrowings.

As at 31 December 2019, the Group's cash and cash equivalents (net of bank overdraft and pledged fixed deposits and bank balances) were S$20.2 million.

8.5 Comparison with the valuation ratios of selected companies listed on the SGX-ST which are broadly comparable to the Group

For the purpose of our evaluation on the financial terms of the Offer, we have made reference to the valuation ratios of selected companies listed on the SGX-ST. These companies are engaged in the water and wastewater management services which the Company considers to be broadly comparable to the Group ("**Comparable Companies**").

We wish to highlight that the Comparable Companies are not exhaustive and we recognise that there is no company listed on the SGX-ST, which we may consider to be identical to the Group in terms of, *inter alia*, geographical markets, composition of business activities, scale of the business operations, risk profile, asset base, valuation methodologies adopted, accounting policies, track record, future prospects, market/industry size, political risk, competitive and regulatory environment, financial positions and other relevant criteria and that such businesses may have fundamentally different annual profitability objectives. The Independent Directors should note that any comparison made with respect to the Comparable Companies merely serve to provide an illustrative perceived market valuation of the Group as at the Latest Practicable Date.

A brief description of the Comparable Companies is as follows:

Comparable Companies	Business Description	Financial Year Ended
SIIC Environment Holdings Ltd. ("**SIIC**")	SIIC conducts operations in wastewater treatment, water purification treatment, and system automation. The company procures and installs industrial and municipal wastewater treatment systems, and designs and installs water purification treatment systems. SIIC also designs and implements automated control systems for power plants and wastewater treatment plants.	31 December 2019
China Everbright Water Ltd ("**China Everbright**")	China Everbright offers water environmental services. The company provides water environment management, sponge city construction, sewage treatment, river-basin ecological restoration, water supply, and other related services. China Everbright conducts businesses in Shenzhen, Singapore, and Hong Kong.	31 December 2019
Moya Holdings Asia Ltd. ("**Moya**")	Moya designs and builds water treatment systems. The company offers engineering, field construction, project management and operations, and maintenance services to municipal, industrial and commercial customers.	31 December 2019
Koh Brothers Eco Engineering Limited ("**Koh Brothers**")	Koh Brothers operates within the industries of construction, building materials, real estate, and leisure. The company designs and installs water treatment systems and partakes in the process of wastewater treatment.	31 December 2019
Memiontec Holdings Ltd ("**Memiontec**")	Memiontec operates as a water treatment company. The company offers water and wastewater management services, as well as distributes water treatment systems and equipment. Memiontec serves customers in Singapore, Indonesia, and the PRC.	31 December 2019

Comparable Companies	Business Description	Financial Year Ended
Sanli Environment Ltd ("**Sanli**")	Sanli operates as an environmental engineering company. The company provides designing, supply, installation, and maintenance of mechanical and electrical equipment, as well as instrumentation and control systems in wastewater treatment plants, water reclamation systems, and pumping stations. Sanli serves customers in Singapore.	31 March 2019
China International Holdings ("**China International**")	China International operates as a holding company. The company, through its subsidiaries, develops and manages energy, natural resources, and water supply facilities and serves customers worldwide.	31 December 2019
Pan Asian Holdings Ltd ("**Pan Asian**")	Pan Asian is an integrated water piping systems solutions provider supporting primarily the water purification and wastewater treatment infrastructure development industry. The company manufactures and supplies pipes, fittings, valves and other related accessories. Pan Asian provides fabrication and technical consultancy services.	31 December 2019

Source: *Bloomberg L.P.*

In our evaluation, we have considered the following widely used valuation measures:

Valuation Ratio	Description
Price-to-revenue ("**P/Revenue**") ratio	P/Revenue ratio or sales multiple is the ratio of a company's market capitalisation divided by the total sales over a 12-month period. The P/Revenue ratio illustrates the ratio of the market capitalisation of an entity in relation to its revenue.
Price-to-earnings ("**PE**") ratio	PE ratio or earnings multiple is the ratio of a company's market capitalisation divided by the historical consolidated net profit attributable to shareholders. The PE ratio is an earnings-based valuation methodology and is calculated based on the net earnings attributable to shareholders after interest, taxation, depreciation and amortisation expenses. The PE ratio illustrates the ratio of the market capitalisation of an entity in relation to the historical net profit attributable to its shareholders. As such, it is affected by the capital structure of a company, its tax position as well as its accounting policies relating to depreciation and intangible assets.
P/NTA	NTA refer to consolidated net tangible asset, which are the net asset value of a company less intangible assets P/NTA refers to the ratio of a company's share price divided by NTA per share. The P/NTA ratio represents an asset-based relative valuation which takes into consideration the book value or NTA backing of a company. The NTA of a company provides an estimate of its value assuming a hypothetical sale of all its tangible assets and repayment of its liabilities and obligations, with the balance being available for distribution to its shareholders. It is an asset-based valuation methodology and this approach is meaningful to the extent that it measures the value of each share that is attached to the net tangible assets of the company.
Enterprise Value-to-Earnings before Interests, Taxes, Depreciation and Amortisation ("**EV/EBITDA**")	EV refers to enterprise value which is the sum of a company's market capitalisation, preferred equity, minority interests, short-term and long-term debts (inclusive of finance leases), less its cash and cash equivalents. EBITDA refers to the historical consolidated earnings before interest, taxes, depreciation and amortisation. The EV/EBITDA ratio illustrates the ratio of the market value of an entity's business in relation to its historical pre-tax operating cash flow performance. The EV/EBITDA multiple is an earnings-based valuation methodology. The difference between EV/EBITDA and the PE ratio (described above) is that it does not take into account the capital structure of a company as well as its interest, taxation, depreciation and amortisation charges.

P/Revenue ratio implied by the Offer Price

For our analysis, we have evaluated the implied P/Revenue ratio of the Group as ascribed by the Offer Price based on the Group's audited revenue for FY2019.

The Group's audited revenue for FY2019 was S$74.8 million. Based on the Offer Price of S$0.17 per Share and the 93,831,492 issued Shares as at the Latest Practicable Date, the implied market capitalisation of the Company is approximately S$16.0 million. The Offer Price thus values the Group at a P/Revenue ratio of approximately **0.21 times**.

PE Ratio implied by the Offer Price

As the Group was loss-making in FY2019, it is not meaningful to compare the Group's PE ratio implied by the Offer Price with the PE ratios of the Comparable Companies.

P/NTA implied by the Offer Price

The NTA the Group as at 31 December 2019 amounted to approximately S$36.3 million. Based on the number of issued Shares of 93,831,492 Shares (excluding treasury Shares) as at the Latest Practicable Date, the NTA per Share amounted to S$0.39 per Share.

The Offer Price of S$0.17 per Share represents a discount of 56.4% to the NTA per Share of S$0.39 and values the Group at a P/NTA ratio of **0.44 times** as at 31 December 2019.

EV/EBITDA implied by the Offer Price

As the Group had negative EBITDA in FY2019, it is not meaningful to compare the Group's EV/EBITDA ratio implied by the Offer Price with the EV/EBITDA ratios of the Comparable Companies.

Comparable Companies

The valuation ratios of the Comparable Companies based on their respective last traded share prices as at the Latest Practicable Date are set out below:

Comparable Companies	Market Capitalisation (S$'million)	P/Revenue[(1)] (times)	PE Ratio (times)	P/NTA[(2)] (times)	EV/EBITDA[(3)] (times)
China Everbright[(4)]	643.7	0.64	4.04	0.36	5.43
SIIC[(5)]	598.6	0.54	5.26	2.40	9.34
Moya	269.0	1.31	16.18	1.25	4.48
Koh Brothers	79.9	0.28	14.14	0.82	5.36
Memiontec	48.5	1.65	157.95[(7)]	5.39[(8)]	44.07[(9)]
Sanli	19.1	0.30	36.40	0.73	2.36
China International[(6)]	13.5	1.09	3.71	0.21	2.96
Pan Asian	5.1	0.22	12.60	0.32	2.25
Max		**1.65**	**157.95**	**5.39**	**44.07**
Min		**0.22**	**3.71**	**0.21**	**2.25**
Mean		**0.75**	**13.19**	**0.87**	**4.60**
Median		**0.59**	**12.60**	**0.73**	**4.48**
Company (implied by the Offer Price)	**16.0**	**0.21**	**n.m.** [(10)]	**0.44**	**n.m.**[(10)]

Source: *Bloomberg L.P., annual reports and announcements of the Comparable Companies and RHTC calculations*

Notes:

(1) The P/Revenue ratios of the Comparable Companies are calculated based on their respective trailing twelve months ("**T12M**") revenue as set out in their latest available published interim results or latest full year results, whichever is applicable.

(2) The P/NTA ratios of the Comparable Companies are calculated based on their respective NTA values as set out in their latest available published interim results or latest full year results, whichever is applicable.

(3) The EV of the Comparable Companies are calculated based on (i) their market capitalisation; and (ii) their preferred equity, minority interests and net debt (if any), as set out in their respective latest available financial results. The EBITDAs are calculated based on the T12M results of the respective Comparable SGX-ST Companies.

(4) The reporting currency of China Everbright's financial statement is Hong Kong Dollars ("**HK$**"). The exchange rate used for conversion to SGD is HKD:S$0.180 as at Latest Practicable Date.

(5) The reporting currency of SIIC's financial statement is Chinese Yuan ("**RMB**"). The exchange rate used for conversion to SGD is RMB:S$0.196 as at Latest Practicable Date.

(6) The reporting currency of China International's financial statement is RMB. The exchange rate used for conversion to SGD is RMB:S$0.196 as at Latest Practicable Date.

(7) Excluded as statistical outlier in the mean and median computations in relation to the PE ratio.

(8) Excluded as statistical outlier in the mean and median computations in relation to the P/NTA ratio.

(9) Excluded as statistical outlier in the mean and median computations in relation to the EV/EBITDA ratio.

(10) n.m. dominates not meaningful as the Group had recorded net losses and negative EBITDA in FY2019.

Based on the above, we observe that:

(a) The P/Revenue ratio of the Company of 0.21 times is below the minimum P/Revenue ratios of the Comparable Companies of 0.22 and significantly below the mean and median P/Revenue ratios of the Comparable Companies of 0.75 times and 0.59 times respectively.

(b) The Company Group was loss-making in FY2019, hence the PE ratio of the Company is not applicable. Solely for illustrative purposes, the PE ratios of the Comparable Companies ranged between 157.95 times and 3.71 times, with the mean and median PE ratios at 13.19 times and 12.60 times respectively.

(c) The P/NTA ratio of the Company of 0.44 times is within the range of the P/NTA ratios of the Comparable Companies but significantly below the mean and median P/NTA ratios of 0.87 times and 0.73 times respectively.

(d) The Company had recorded a negative EBITDA in FY2019, hence the EV/EBITDA ratio of the Company is not applicable. Solely for illustrative purposes, the EV/EBITDA ratios of the Comparable Companies ranged between 44.07 times and 2.25 times, with the mean and median EV/EBITDA ratios at 4.60 times and 4.48 times respectively.

8.6 Comparison with recently completed Non-Privatisation Transactions on the SGX-ST

In view that it is the intention of the Offeror to maintain the listing status of the Company on the SGX-ST, for the purpose of our evaluation on the financial terms of the Offer, we have compared the financial terms of the Offer to other recently completed non-privatisation take-over offers of companies listed on the SGX-ST which were announced since 1 January 2017 and up to the Latest Practicable Date ("**Selected Comparable Transactions**").

However, we wish to highlight that the list of target companies set out under the Selected Comparable Transactions may not be directly comparable with the Company in terms of market capitalisation, size of operations, business activities, accounting policies, financial performance, future prospects and other relevant criteria. Each transaction must be judged on its own commercial and financial merits.

We also wish to highlight that the list of Selected Comparable Transactions is by no means exhaustive and has been compiled based on publicly available information as at the Latest Practicable Date.

The premium (if any) that an offeror would pay in respect of any particular takeover depends on various factors, *inter alia*, the offeror's intention with regard to the target company, the potential synergy that the offeror can derive from acquiring the target company, the presence of competing bids for the target company, prevailing market conditions and sentiments, attractiveness and profitability of the target's business and assets as well as existing and desired level of control in the target company. Therefore, the comparison of the Offer with the Selected Comparable Transactions set out below is for illustrative purposes only. Conclusions drawn from the comparisons made may not reflect the perceived market valuation of the Company.

Selected Comparable Transactions	Date of announcement	Premium / (Discount) of Offer Price over / (to)					Price-to-NTA (times)	Independent financial adviser's advice to the independent directors on their recommendation to shareholders in relation to the offers
		Last transacted market price prior to announcement (%)	VWAP for the 1-month period prior to announcement (%)	VWAP for the 3-month period prior to announcement (%)	VWAP for the 6-month period prior to announcement (%)	VWAP for the 12-month period prior to announcement (%)		
Healthway Medical Corporation Limited	7 Feb 17	1.3	8.9	15.0	16.8	19.8	0.7[(1)]	Accept the offer
OUE Lippo Healthcare Limited (formerly known as International Healthway Corporation Limited)	16 Feb 17	0.0	14.0	20.5	32.5	37.7	1.1[(2)]	Accept the offer
Yinda Infocomm Limited (formerly known as CMC Infocomm Limited)	7 May 17	18.8	18.8	35.5	9.5	16.7	1.7[(3)]	Accept the offer
Cityneon Holdings Limited[(4)]	12 May 17	(5.4)	0.6	3.9	0.3	4.2	3.2[(5)]	Reject the offer
Blumont Group Ltd	24 Aug 17	(81.8)[(6)]	(89.9)[(6)]	(88.5)[(6)]	(91.4)[(6)]	(94.0)[(6)]	0.6[(7)]	Reject the offer
Mary Chia Holdings Limited	24 Aug 17	69.2[(8)]	93.0[(8)]	96.1[(8)]	99.6[(8)]	72.4[(8)]	2.8[(9)]	Accept the offer
BRC Asia Limited[(10)]	8 Sep 17	33.1	30.3	35.3	42.0	47.0	0.8[(11)]	Reject the offer
New Wave Holdings Ltd.	19 Oct 17	44.4	38.0	9.0	18.7	29.1	0.9[(12)]	Accept the offer
TMC Education Corporation Limited	15 Dec 17	68.8[(13)]	50.0	29.8	29.8	7.1	1.5[(14)]	Accept the offer
CH Offshore Ltd	26 Jul 18	0.0	(11.0)	(11.6)	(21.7)	(33.7)	0.5[(15)]	Reject the offer
OneApex Limited[(16)] (formerly known as Chew's Group Limited)	22 Aug 18	26.2	30.9	33.4	37.7	35.9	1.2[(17)]	Accept the offer
Sunrise Shares Holding Ltd.	6 Dec 18	21.4	30.8	36.0	14.9	(64.4) [(18)]	0.3[(19)]	Reject the offer

Selected Comparable Transactions	Date of announcement	Premium / (Discount) of Offer Price over / (to)					Price-to-NTA (times)	Independent financial adviser's advice to the independent directors on their recommendation to shareholders in relation to the offers
		Last transacted market price prior to announcement (%)	VWAP for the 1-month period prior to announcement (%)	VWAP for the 3-month period prior to announcement (%)	VWAP for the 6-month period prior to announcement (%)	VWAP for the 12-month period prior to announcement (%)		
Thakral Corporation Ltd	4 Mar 19	11.8	17.1	18.1	18.0	14.6	0.5[20]	Accept the offer
Sevak Limited[21]	21 Mar 19	17.4	9.3	9.8	18.7	24.6	1.1[22]	Accept the offer
Ying Li International Real Estate Limited	3 Apr 19	1.6	5.7	10.5	17.8	18.2	0.3[23]	Reject the offer
DLF Holdings Limited	20 Sep 19	(56.2)[24]	(54.4)[24]	(54.4)[24]	(56.2)[24]	(51.9)[24]	18.6[24][25]	Accept the offer
ISEC Healthcare Ltd. [26]	25 Oct 19	5.9	11.3	15.1	19.9	22.6	7.7[27][28]	Accept the offer
Max		**69.2**	**93.0**	**96.1**	**99.6**	**72.4**	**18.6**	
Min		**(81.8)**	**(89.9)**	**(88.5)**	**(91.4)**	**(94.0)**	**0.3**	
Mean		**13.6**	**18.2**	**18.6**	**18.2**	**18.8**	**1.6**	
Median		**11.8**	**15.6**	**16.6**	**18.4**	**19.8**	**1.0**	
The Company (implied by the Offer Price)	**5 May 2020**	**30.8**	**33.3**	**30.6**	**(15.9)**	**(20.5)**	**0.44**	

Notes:

(1) Based on the unaudited NAV as at 31 December 2016.

(2) Based on the revalued NTA as at 30 September 2016.

(3) Based on the unaudited NTA 30 November 2016.

(4) On 12 May 2017, Cityneon Holdings Limited ("**Cityneon**") released a pre-conditional offer announcement ("**Pre-Conditional Offer Announcement**") to inform its shareholders that Lucrum 1 Investment Limited has entered into a conditional share purchase agreement for the purchase of 128,458,59 shares, representing 52.2% of the issues and paid up share capital of Cityneon. The market premia in the table above was computed based on the share prices prior to the Pre-Conditional Offer Announcement.

(5) Based on the NAV as at 31 December 2016.

(6) Excluded as statistical outliers in the mean and median computations in relation to the Premium / (Discount) of Offer Price over / (to): (i) the last transacted market price prior to announcement; and (ii) the relevant VWAPs for the 1-month, 3-month, 6-month and 12-month period prior to the announcement.

(7) Based on the revalued NTA as at 30 June 2017.

(8) Excluded as statistical outliers in the mean and median computations in relation to the Premium / (Discount) of Offer Price over / (to): (i) the last transacted market price prior to announcement; and (ii) the relevant VWAPs for the 1-month, 3-month, 6-month and 12-month period prior to the announcement.

(9) Based on the revalued NTA as at 31 March 2017.

(10) On 30 May 2017, BRC Asia Limited ("**BRC Asia**") released a holding announcement ("**Holding Announcement**") to inform its shareholders that some of the substantial shareholders of BRC Asia had received an unsolicited approach in connection with a potential transaction which may or may not lead to an acquisition of the issued shares of BRC Asia. The market premia in the table above was computed based on the share prices prior to the Holding Announcement.

(11) Based on the revalued NAV as at 30 June 2017.

(12) Based on the revalued NTA as at 30 September 2017.

(13) Excluded as statistical outliers in the mean and median computations in relation to the Premium / (Discount) of Offer Price over / (to) the last transacted market price prior to announcement.

(14) Based on the adjusted NTA as at 30 June 2017.

(15) Based on the revalued NAV as at 30 June 2018.

(16) On 8 June 2018, Chew's Group Limited ("**Chew's Group**") announced ("**Termsheet Announcement**") that it had been informed by its controlling shareholder, Fenghe Investment Holding Pte. Ltd. ("**Fenghe**"), that Fenghe had entered into a non-legally binding term sheet with a potential third-party purchaser for the proposed acquisition by the purchaser from Fenghe of 57,580,341 ordinary shares of Chew's Group, representing approximately 68.14% of the issued share capital of Chew's Group, at a price of S$0.2107 per sale share. The market premia in the table above were computed based on the share prices prior to the Termsheet Announcement. Chew's Group had on 21 March 2018 and 26 September 2018 declared a special one-tier tax exempt dividend of S$0.35 per share and a one-tier tax exempt interim dividend of S$0.10 per share respectively, which were paid on 10 May 2018 and 12 October 2018 respectively. In connection therewith, the share prices of Chew's Group in the table above had been adjusted to exclude the effects of the dividends on the share prices of Chew's Group. Accordingly, the VWAPs of Chew's Group had been weighted based on the average traded prices (as adjusted for the dividends) and traded volumes of the shares during the relevant trading days for each of the respective periods prior to the Termsheet Announcement.

(17) Based on the adjusted NAV as at 31 March 2018.

(18) Excluded as statistical outliers in the mean and median computations in relation to the Premium / (Discount) of Offer Price over / (to) the relevant VWAPs for the 12-month period prior to the announcement.

(19) Based on the unaudited NAV as at 30 June 2018.

(20) Based on the unaudited NAV as at 31 December 2018.

(21) On 1 February 2019, Sevak Limited ("**Sevak**") released a holding announcement ("**Holding Announcement**") to inform its shareholders in relation to a potential partial offer and no offer price was mentioned in the Holding Announcement. The market premia in the table above was computed based on the share prices prior to the Holding Announcement.

(22) Based on the audited NAV as at 31 December 2018.

(23) Based on the revalued NAV as at 31 December 2018.

(24) Excluded as statistical outliers in the mean and median computations in relation to the Price-to-NTA ratio.

(25) Based on the revalued NTA as at 30 June 2019.

(26) On 2 July 2019, ISEC Healthcare Ltd. ("**ISEC**") released a holding announcement ("**Holding Announcement**") to inform its shareholders that some of the shareholders were at an advanced stage of negotiations with a third party purchaser for the sale of part of their shares of ISEC and that based on the proposed terms, the potential transaction if completed, is likely to lead to an offer for the shares of ISEC. The market premia in the table above was computed based on the share prices prior to the Holding Announcement.

(27) Excluded as statistical outliers in the mean and median computations in relation to the Premium / (Discount) of Offer Price over / (to): (i) the last transacted market price prior to announcement; and (ii) the relevant VWAPs for the 1-month, 3-month and 6-month period prior to the announcement.

(28) Based on the unaudited NTA as at 30 September 2019.

Based on the above, we note the following:

(a) The premia implied by the Offer Price of 30.8% over the last transacted price of the Shares prior to the Offer Announcement Date is within the range and above the mean and median of the corresponding premia of the Selected Comparable Transactions.

(b) The premia implied by the Offer Price of 33.3% and 30.6% over the VWAPs for the 1-month and 3-month period prior to the Offer Announcement Date is within the range and above the mean and median of the corresponding premia of the Selected Comparable Transactions.

(c) The discount implied by the Offer Price of 15.9% to the VWAPs for the 6-month period prior to the Offer Announcement Date is within the range but significantly below the mean and median of the corresponding premia of the Selected Comparable Transactions.

(d) The discount implied by the Offer Price of 20.5% to the VWAPs for the 12-month period prior to the Offer Announcement Date is within the range but significantly below the mean and median of the corresponding premia of the Selected Comparable Transactions.

(e) The P/NTA ratio of the Group of 0.44 times as implied by the Offer Price is within the range of P/NTA ratios of the Selected Comparable Transactions but significantly lower than the mean and median P/NTA ratios of the Selected Comparable Transactions.

(f) Further, we noted that amongst the Selected Comparable Transactions where the respective independent financial advisers had advised independent directors to recommend to shareholders to "accept" the offer, the P/NTA ratios of the majority of such Selected Comparable Transactions are significantly higher than the P/NTA ratio implied by the Offer Price in relation to the Company.

8.7 Dividend track record of the Company

The Company had not declared or paid any dividends since the financial year ended 31 December 2012.

The Directors have confirmed that the Company does not have a fixed dividend policy and that they will recommend future dividends after taking into consideration the Company's cash and financial position, financial performance of the Group, working capital requirements and projected capital expenditure and other investment plans.

We wish to highlight that the above dividend analysis of the Company serves only as an illustrative guide and is not an indication of the Company's future dividend policy. There is no assurance that the Company will or will not pay dividends in future and/or maintain that level of dividend paid in past periods.

8.8 Other relevant considerations

8.8.1 Likelihood of competing offers

As at the Latest Practicable Date, the Offeror and its concert parties own approximately 44.1% of the total number of Shares.

The Directors have confirmed that, as at the Latest Practicable Date, apart from the Offer being made by the Offeror, no alternative offer or proposal from any third party has been received. We also note that there is no publicly available evidence of any alternative offer for the Offer Shares from any third party.

8.8.2 No intention to increase the Offer Price

The Offeror does not intend to revise the Offer Price, except that the Offeror reserve the right to do so in a competitive situation.

8.8.3 Offeror's intention for the Company / No compulsory acquisition by the Offeror

It is the current intention of the Offeror to maintain the listing status of the Company on the SGX-ST. However, in the event the percentage of Shares (excluding any Shares held in treasury) held in public hands falls below 10.0% and the SGX-ST suspends trading of the Shares, the Offeror reserves the right to re-evaluate its position, taking into account, amongst other things, the level of acceptances received by the Offeror and the prevailing market conditions at the relevant time. **Accordingly, there is no assurance that the Offeror will take steps to preserve the listing status of the Company on the SGX-ST if the public float of the Company is less than 10.0%.**

Pursuant to Section 215(1) of the Companies Act, in the event the Offeror receives valid acceptances pursuant to the Offer or acquires Offer Shares from the date of despatch of the Offer Document otherwise than through valid acceptances of the Offer, in respect of not less than 90.0% of the Shares (other than those already held by the Offeror, its related corporations or their respective nominees as at the date of despatch of the Offer Document, including the Sale Shares purchased from the Vendor under the Share Purchase Agreement), the Offeror would have the right to compulsorily acquire all the Shares of the Shareholders who have not accepted the Offer ("**Dissenting Shareholders**") at the Offer Price.

It is the current intention of the Offeror to maintain the listing status of the Company on the SGX-ST. **Accordingly, the Offeror does not intend to exercise any right of compulsory acquisition under Section 215(1) of the Companies Act in the event that it receives acceptances pursuant to the Offer representing 90.0% or more of the Offer Shares.** However, the Offeror reserves the right to re-evaluate its position, taking into account, amongst other things, the level of acceptances received by the Offeror and the prevailing market conditions at the relevant time. Please refer to Section 7 above on the Offeror's intentions in relation to the listing status of the Company on the SGX-ST.

Dissenting Shareholders have the right under and subject to Section 215(3) of the Companies Act to require the Offeror to acquire their Shares in the event that the Offeror, its related corporations and their respective nominees acquire, such number of Shares pursuant to the Offer, which, together with the Shares held by the Offeror, its related corporations and their respective nominees, comprise 90.0% or more of the total number of issued Shares. **Such Shareholders who wish to exercise such rights are advised to seek their own independent professional advice.**

8.8.4 Outlook of the Group

We have noted that based on the Group's FY2019's results announcement released on 28 February 2020, the Group had provided its views on the industry it is operating. We have reproduced the extracts of its views in italics below:

"In the Group's subsidiaries in Malaysia, business in the EE Systems, WM Services and Trading segments look to remain stable and is likely to contribute to the Group's overall financial position.

The Group's subsidiary in China, which typically contributes about 50% of the revenue, would likely be adversely affected by the outbreak of coronavirus disease. The subsidiary is based in Wuhan, which was identified as the epicentre of the outbreak, and the city has been under lock down from 23 January 2020 to date.

Another of the Group's subsidiary in Singapore that may experience some effects from the coronavirus outbreak is PV Vacuum, as the subsidiary relies heavily on procurement of materials for installation from China. There will likely be delays in logistics, and therefore, implementation of PV Vacuum's projects within the year.

On the investment front, the Group is currently conducting due diligence on the Nambo Project following the acquisition of PEI in Indonesia. Should the results be positive, and subject to the project being approved for investment in an EGM, the Group expects to commence construction of the infrastructure within the next 12 months.

The Group will continue its efforts to diversify its revenue and procurement sources so as to stay resilient in the face of unexpected challenges."

Impact of COVID-19 outbreak on the Group

We note that the Company had, on 25 February 2020 and 30 March 2020, updated the Shareholders in relation to the impact of the COVID-19 outbreak on the Group's operation in the PRC and Malaysia respectively. We have reproduced the extracts of the impact in italics below:

"*Wuhan Kaidi, which has historically contributed approximately 50% of the Group's revenue, is based in Wuhan, the epicenter of the COVID-19 Outbreak. Hence, the control measures implemented to control the COVID-19 Outbreak are expected to result in significant adverse impact to Wuhan Kaidi's and the Group's results for the financial year ending 31 December 2020.*"; and

"*The Group's wholly owned subsidiary, Darco Water Systems Sdn. Bhd ("**DWS**") and its entities, which has historically contributed approximately 40% of the Group's revenue, is based in Malaysia, and has not been exempted from the order. Hence, the control measures implemented to control the COVID-19 Outbreak are expected to result in adverse impact to DWS's and the Group's results for the financial year ending 31 December 2020.*"

9. OPINION

In arriving at our opinion on the financial terms of the Offer, we have taken into consideration, *inter alia*, the following factors summarised below as well as elaborated elsewhere in this Letter. The following should be read in conjunction with, and in the context of, the full text of this Letter:

(a) Market quotation and trading liquidity of the Shares;

(i) The Offer Price represents a premium of approximately 30.8%, 33.3% and 30.6% over the VWAP of the Shares on the last traded day prior to the release of the Offer Announcement Date, 1-month and 3-month periods prior to the release of the Offer Announcement respectively.

(ii) The Offer Price represents a discount of approximately 15.9% and 20.5% to the VWAP of the Shares for 6-month and 1-year periods prior to the release of the Offer Announcement respectively.

(iii) The Offer Price represents a premium of 68.3% above the lowest transacted price and a discount of 58.5% to the highest transacted price of the Shares.

(iv) The Shares were thinly traded, trading on only 33 days out of a total of 261 market days during the 1-year period prior to the release of the Offer Announcement. Out of these 33 traded days, the Shares have closed at or above the Offer Price on 27 of these 33 traded days, representing 81.8% of the total traded days of the Shares.

(v) The Shares have closed at or above the Offer Price on all 13 traded days from the Offer Announcement Date to the Latest Practicable Date. The Offer Price represents a discount of 19.0% to the highest transacted price of the Shares during the period from the release of the Offer Announcement Date to the Latest Practicable Date.

(vi) No Shares were traded on 5 June 2020, being the Latest Practicable Date.

(b) Historical financial performance of the Group;

The revenue of the Group increased by 38.0% from FY2017 to FY2018 but recorded a slight decline of 10.8% from FY2018 to FY2019, Similarly, the Group recorded a net profit of S$0.6 million in FY2017 but a net loss of S$1.4 million in FY2018 and the loss widened to S$8.8 million in FY2019.

(c) Financial position of the Group;

As at 31 December 2019, the Group recorded a NTA of S$36.3 million, based on the 93,831,492 number of shares, the NTA per Share is S$0.39. The Offer Price represents a discount of 56.4% to the audited NTA per Share of the Group as at 31 December 2019.

(d) Cash flow of the Group;

The Group recorded (i) a net cash outflow from operating activities of S$2.6 million, S$6.9 million and S$1.5 million in FY2017, FY2018 and FY2019 respectively; (ii) a net cash outflow from investing activities of S$0.3 million, S$0.4 million and S$3.6 million in FY2017, FY2018 and FY2019 respectively; and (iii) a net cash inflow from financing activities of S$12.9 million, $14.8 million and S$2.8 million in FY2017, FY2018 and FY2019 respectively,

(e) Comparison with the valuation ratios of selected companies listed on the SGX-ST which are broadly comparable to the Group;

(i) The P/Revenue ratio of the Company of 0.21 times is significantly below the mean and median P/Revenue ratios of the Comparable Companies of 0.75 times and 0.59 times respectively.

(ii) The P/NTA ratio of the Company of 0.44 times is but significantly below the mean and median P/NTA ratios of 0.87 times and 0.73 times respectively.

(f) Comparison with recently completed Non-Privatisation Transactions on the SGX-ST;

(i) The premia implied by the Offer Price of 30.8%, 33.3% and 30.6% over the VWAPs for the last transacted price of the Shares prior to the Offer Announcement Date, 1-month and 3-month period prior to the Offer Announcement Date is above the mean and median of the corresponding premia of the Selected Comparable Transactions respectively.

(ii) The discount implied by the Offer Price of 15.9% and 20.5% to the VWAPs for the 6-month and 12-month period prior to the Offer Announcement Date is significantly below the mean and median of the corresponding premia of the Selected Comparable Transactions respectively.

(iii) The P/NTA ratio of the Group of 0.44 times as implied by the Offer Price is significantly lower than the mean and median P/NTA ratios of the Selected Comparable Transactions.

(iv) Amongst the Selected Comparable Transactions where the respective independent financial advisers had advised independent directors to recommend to shareholders to “accept” the offer, the P/NTA ratios of the majority of such Selected Comparable Transactions are significantly higher than the P/NTA ratio implied by the Offer Price in relation to the Company.

(g) Dividend track record of the Company; and

The Company had not declared or paid any dividends since the financial year ended 31 December 2012.

(h) Other relevant considerations.

(i) The likelihood of a competing offer for the Shares is remote in view of the Offeror’s shareholding interest of approximately 44.1% in the Company as at the Latest Practicable Date.

(ii) The Offeror does not intend to revise the Offer Price.

(iii) The Offeror intends to maintain the listing status of the Company on SGX-ST. The Offer does not intend to exercise any right of compulsory acquisition under Section 215(1) of the Companies Act in the event that it receives acceptances pursuant to the Offer representing 90.0% or more of the Offer Shares.

(iv) The Company’s view on the industry it is operating and the impact of COVID-19 outbreak on the Group, as set out in paragraph 8.8.4 of this Letter.

Having considered the various factors set out in the earlier sections of this Letter and summarised below, we are of the opinion that the financial terms of the Offer are not fair and not reasonable.

We consider the financial terms of the Offer to be **NOT FAIR**, after taking into consideration the following factors:

(a) Notwithstanding the Offer Price represents a premium of approximately 30.8%, 33.3% and 30.6% over the VWAP of the Shares on the last traded day prior to the release of the Offer Announcement Date, 1-month and 3-month periods prior to the release of the Offer Announcement respectively, the Offer Price represents a discount of approximately 15.9% and 20.5% to the VWAP of the Shares for 6-month and 1-year periods prior to the release of the Offer Announcement respectively.

(b) The Shares have closed at or above the Offer Price on all 13 traded days from the Offer Announcement Date to the Latest Practicable Date. The Offer Price represents a discount of 19.0% to the highest transacted price of the Shares during the period from the release of the Offer Announcement Date to the Latest Practicable Date.

(c) The Offer Price represents a discount of 56.4% to the audited NTA per Share of the Group as at 31 December 2019.

(d) In respect of the Comparable Companies, we have considered the following factors:

  (i) The P/Revenue ratio of the Company of 0.21 times (as implied by the Offer Price) is significantly below the mean and median P/Revenue ratios of the Comparable Companies of 0.75 times and 0.59 times respectively;

  (ii) The P/NTA ratio of the Company of 0.44 times (as implied by the Offer Price) is significantly below the mean and median P/NTA ratios of 0.87 times and 0.73 times respectively.

(e) In respect of the Non-Privatisation Transactions, we have considered the following factors:

  (i) Notwithstanding the premia implied by the Offer Price of 30.8%, 33.3% and 30.6% over the last transacted price of the Shares prior to the Offer Announcement Date, the 1-month and 3-month period prior to the Offer Announcement date is above the mean and median of the corresponding premia of the Selected Comparable Transactions, the discount implied by the Offer Price of 15.9% and 20.5 to the VWAPs for the 6-month and 12-month period prior to the Offer Announcement Date is significantly below the mean and median of the corresponding premia of the Selected Comparable Transactions;

  (ii) The P/NTA ratio of the Group of 0.44 times as implied by the Offer Price is significantly lower than the mean and median P/NTA ratios of the Selected Comparable Transactions; and

We consider the financial terms of the Offer to be **NOT REASONABLE**, after taking into consideration the following factors:

(a) The Shares were very thinly traded, trading on only 33 days out of a total of 261 market days during the 1-year period prior to the release of the Offer Announcement. Out of these 33 traded days, the Shares have closed at or above the Offer Price on 27 of these 33 traded days, representing 81.8% of the total traded days of the Shares.

(b) As at 31 December 2019, the Group has a current ratio is 1.5 times which implies that the Group has sufficient current assets to cover the current liabilities.

(c) Th Group's net cash outflow from operating activities has decreased significantly in FY2019 as compared to FY2018.

(d) In respect of the Non-Privatisation Transactions, amongst the Selected Comparable Transactions where the respective independent financial advisers had advised independent directors to recommend to shareholders to "accept" the offer, the P/NTA ratios of the majority of such Selected Comparable Transactions are significantly higher than the P/NTA ratio implied by the Offer Price in relation to the Company.

(e) The likelihood of a competing offer for the Shares is remote in view of the Offeror's shareholding interest of approximately 44.1% in the Company as at the Latest Practicable Date.

(f) The Offeror does not intend to revise the Offer Price.

(g) The Offeror intends to maintain the listing status of the Company on SGX-ST. The Offer does not intend to exercise any right of compulsory acquisition under Section 215(1) of the Companies Act in the event that it receives acceptances pursuant to the Offer representing 90.0% or more of the Offer Shares.

Accordingly, we advise the Independent Directors to recommend that Shareholders REJECT the Offer. Considering the illiquidity of the Shares in the one year period prior to the Offer Announcement Date, should Shareholders wish to realise their investments in the Company, they can choose to sell their Shares in the open market at a price equivalent to or higher than the Offer Price (after deducting transaction costs).

As set out in the Offer Document, Shareholders should also take note that it is the current intention of the Offeror to maintain the listing status of the Company on the SGX-ST. In the event the percentage of Shares held in public hands falls below 10.0% and the SGX-ST suspends trading of the Shares, the Offeror reserves the right to re-evaluate its position, taking into account, amongst other things, the level of acceptances received by the Offeror and the prevailing market conditions at the relevant time. Accordingly, there is no assurance that the Offeror will take steps to preserve the listing status of the Company on the SGX-ST if the public float of the Company is less than 10.0%.

We have prepared this Letter for the use of the Independent Directors for their benefit, in connection with and for the purpose of their consideration of the financial terms of the Offer and should not be relied on by any other party. The recommendation made by the Independent Directors to the Shareholders in relation to the Offer shall remain the sole responsibility of the Independent Directors.

Whilst a copy of this Letter may be reproduced in the Circular, neither the Company nor the Directors may reproduce, disseminate or quote this Letter (or any part thereof) for any other purpose at any time and in any manner without the prior written consent of RHTC in each specific case.

This Letter is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not apply by implication to any other matter.

Yours faithfully
For and on behalf of
RHT CAPITAL PTE. LTD.

Khong Choun Mun Chief Executive Officer	Mah How Soon Managing Director

1. DIRECTORS

The names, addresses and descriptions of the Directors as at the Latest Practicable Date are set out below:

Name	Address	Description
Mr. Wang Yaoyu	c/o 280 Woodlands Industrial Park E5, #09-36 Harvest @ Woodlands, Singapore 757322	Executive Chairman
Mr. Wang Zhi	c/o 280 Woodlands Industrial Park E5, #09-36 Harvest @ Woodlands, Singapore 757322	Non-Executive Deputy Chairman
Mr. Poh Kok Hong	c/o 280 Woodlands Industrial Park E5, #09-36 Harvest @ Woodlands, Singapore 757322	Executive Director and Chief Executive Officer
Mr. Tay Lee Chye Lester	c/o 280 Woodlands Industrial Park E5, #09-36 Harvest @ Woodlands, Singapore 757322	Lead Independent Director
Mr. Tay Von Kian	c/o 280 Woodlands Industrial Park E5, #09-36 Harvest @ Woodlands, Singapore 757322	Non-Executive Independent Director
Ms. Gn Jong Yuh Gwendolyn	c/o 280 Woodlands Industrial Park E5, #09-36 Harvest @ Woodlands, Singapore 757322	Non-Executive Independent Director
Ms. Ong Joo Mien	c/o 280 Woodlands Industrial Park E5, #09-36 Harvest @ Woodlands, Singapore 757322	Non-Executive Independent Director

2. REGISTERED OFFICE

280 Woodlands Industrial Park E5, #09-36 Harvest @ Woodlands, Singapore 757322

3. PRINCIPAL ACTIVITIES

The Company is a public company limited by shares and was incorporated in Singapore on 13

October 2001. Its shares have been listed on the Mainboard of the SGX-ST since 7 May 2008. The Group is principally engaged in the business of water purification and wastewater treatment systems, including providing maintenance services for such systems and trading and supplying materials used in such systems.

4. SHARE CAPITAL

4.1. Issued Share Capital

The Company has one class of shares, being ordinary shares. As at the Latest Practicable Date, the issued and paid-up share capital of the Company is S$81,797,093.926 comprising 93,831,492 Shares. As at the Latest Practicable Date, the Company does not have any treasury shares. The issued Shares are listed and quoted on the Mainboard of the SGX-ST.

4.2. Capital, Dividends and Voting

The rights of Shareholders in respect of capital, dividends and voting are contained in the Constitution, which is available for inspection at the office of the Company's share registrar at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623, during normal business hours for the period during which the Offer remains open for acceptance. The relevant provisions of the Constitution relating to the rights of Shareholders in respect of capital, dividends and voting have been extracted from the Constitution and are set out in **Appendix III** to this Circular. Capitalised terms and expressions not defined in the extracts have the meanings ascribed to them in the Constitution.

4.3. Number Of Shares Issued Since The End Of The Last Financial Year

No Shares have been issued by the Company since the end of the last financial year up to the Latest Practicable Date.

4.4. Options And Convertible Instruments

There are no outstanding instruments convertible into, rights to subscribe for, and options in respect of securities being offered for or which carry voting rights affecting the Shares in the Company, as at the Latest Practicable Date.

5. DISCLOSURE OF INTERESTS

5.1. Interests of the Company in Offeror Securities

N.A. The Offeror is an individual.

5.2. Dealings in Offeror Securities by the Company

N.A. The Offeror is an individual.

5.3. Interests of the Directors in Offeror Securities

N.A. The Offeror is an individual.

5.4. Dealings in Offeror Securities by the Directors

N.A. The Offeror is an individual.

5.5. Interests of the Directors in the Company Securities

Save as disclosed below, as at the Latest Practicable Date, none of the Directors has any direct or indirect interests in the Company Securities:

Name of Director	Direct Interest		Deemed Interest		Total Interest	
	No. of Shares	**%**	**No. of Shares**	**%**	**No. of Shares**	**%**
Mr. Wang Yaoyu	-	-	-	-	-	-
Mr. Wang Zhi	41,352,218	44.07	-	-	41,352,218	44.07
Mr. Poh Kok Hong	-	-	-	-	-	-
Mr. Tay Lee Chye Lester	-	-	-	-	-	-
Mr. Tay Von Kian	-	-	-	-	-	-
Ms. Gn Jong Yuh Gwendolyn	-	-	-	-	-	-
Ms. Ong Joo Mien	-	-	-	-	-	-

5.6. Dealings in Company Securities by the Directors

Pursuant to a sale and purchase agreement dated 5 May 2020, Mr. Wang Zhi (i.e., the Offeror) purchased from the Seller an aggregate of 13,387,118 Shares representing approximately 14.27% of the total number of Shares for an aggregate cash consideration of S$2,275,810.06, being S$0.17 for each Share. Mr. Wang Yaoyu has a 36.32% equity interest in the Seller.

Subsequently: (a) on 8 May 2020, Mr. Wang Zhi acquired an additional 800 Shares for a consideration of $0.17 for each Share pursuant to an open market purchase on the SGX-ST; (b) on 22 May 2020, Mr. Wang Zhi acquired an additional 8,000 Shares for a consideration of $0.17 for each Share pursuant to an open market purchase on the SGX-ST; (c) on 29 May 2020, Mr. Wang Zhi acquired an additional 21,200 Shares for a consideration of $0.17 for each Share pursuant to an open market purchase on the SGX-ST; (d) on 2 June 2020, Mr. Wang Zhi acquired an additional 117,600 Shares for a consideration of $0.17 for each Share pursuant to an open market purchase on the SGX-ST; (e) on 3 June 2020, Mr. Wang Zhi acquired an additional 102,500 Shares for a consideration of $0.17 for each Share pursuant to an open market purchase on the SGX-ST; (f) on 4 June 2020, Mr. Wang Zhi acquired an additional 5,000 Shares for a consideration of $0.17 for each Share pursuant to an open market purchase on the SGX-ST; and (g) on 5 June 2020, Mr. Wang Zhi acquired an additional 30,000 Shares for a consideration of $0.17 for each Share pursuant to an open market purchase on the SGX-ST.

Save as disclosed above, none of the Directors has dealt for value in the Company Securities during the period commencing six months prior to the Offer Announcement Date and ending on the Latest Practicable Date.

5.7. Company Securities Owned or Controlled by the IFA

As at the Latest Practicable Date, none of the IFA nor any funds whose investments are managed by the IFA on a discretionary basis owns or controls any Company Securities.

5.8. Dealings in Company Securities by the IFA

None of the IFA nor any funds whose investments are managed by the IFA on a discretionary basis has dealt for value in any Company Securities during the period commencing six months prior to the Offer Announcement Date and ending on the Latest Practicable Date.

5.9. Directors' Intentions in relation to the Offer

Save for Mr. Wang Zhi (i.e., the Offeror), none of the Directors have any direct or indirect interest in the Shares.

6. OTHER DISCLOSURES

6.1. Directors' Service Contracts

As at the Latest Practicable Date:

(a) there are no service contracts between any of the Directors or proposed directors with the Company or any of its subsidiaries which have more than 12 months to run and which are not terminable by the employing company within the next 12 months without paying any compensation; and

(b) there are no such service contracts entered into or amended during the period commencing six months prior to the Offer Announcement Date and ending on the Latest Practicable Date.

However, pursuant to the service agreement dated 1 July 2019 entered into between the Company and Mr. Poh Kok Hong, his employment may be terminated at any time by either party giving to the other not less than six months' notice in writing, or in lieu of notice, payment of an amount equivalent to six months' salary based on his last drawn monthly salary.

6.2. Arrangements affecting Directors

As at the Latest Practicable Date, save as disclosed in this Circular and the Offer Document and in respect of Mr. Wang Zhi who is both the Offeror and a Director:

(a) there are no agreements or arrangements made between any Director and any other person in connection with or conditional upon the outcome of the Offer;

(b) it is not proposed that any payment or other benefit shall be made or given to any Director or director of any other corporation which is by virtue of Section 6 of the Companies Act deemed to be related to the Company, as compensation for loss of office or otherwise in connection with the Offer; and

(c) none of the Directors has a material personal interest, whether direct or indirect, in any material contract entered into by the Offeror.

7. MATERIAL CONTRACTS WITH INTERESTED PERSONS

The following sets out a summary of each material contract with Interested Persons (not being a contract entered into in the ordinary course of business) entered into by the Company or any of its subsidiaries during the period commencing three years before the Offer Announcement Date and ending on the Latest Practicable Date.

(a) The Company had entered into a placement agreement with Mr. Wang Zhi dated 20 October 2017 in respect of the proposed placement of up to 30,251,151 new Shares at a placement price of S$0.65 per Share (the "**Wang Zhi Placement Agreement**"). The placement was completed on 23 March 2018 with the issue and allotment of 27,680,000 Shares to Mr. Wang Zhi. For further details, please refer to the circular dated 23 February 2018 and the announcement dated 23 March 2018.

(b) The Company had entered into a loan agreement with Mr. Wang Zhi dated 23 November 2017 in respect of a S$4 million loan to the Company to be disbursed within 60 days from the date of the placement agreement referred to in sub-paragraph (a) above. The loan is repayable within 24 months from the completion date of the Wang Zhi Placement Agreement or upon completion of the Asset Injection, whichever is earlier, and shall be subject to an interest of 5% per annum to be paid quarterly in arrears. As at the Latest Practicable Date, the loan has been fully repaid.] For further details, please refer to the circular dated 23 February 2018.

(c) On 5 November 2018, in connection with the Asset Injection condition precedent under the Wang Zhi Placement Agreement, the Company announced that it had signed a non-binding letter of intent with Mr. Wang Zhi in respect of a proposed investment in a Build-Operate-Transfer Gaoyi Domestic Waste Water Treatment Project, which holds a 30-year concession on a waste water treatment plant. Pursuant to such letter of intent, the Company had paid Mr. Wang Zhi a deposit of RMB 6 million. Subsequently, the Company announced on 9 September 2019 that the parties had agreed to extend the deadline by which Mr. Wang Zhi is required to transfer such asset to the Company from 23 March 2020 to 23 March 2022. For further details, please refer to the circular dated 23 February 2018 and the announcements dated 5 November 2018, 9 September 2019 and 17 September 2019.

(d) The Company had entered into a loan agreement dated 21 November 2019 with Mr. Wang Zhi in respect of an unsecured US$ term loan facility of a total principal amount not exceeding US$1,437,200, which shall be available for nine months commencing from the date of the loan agreement and subject to an interest of 5% per annum. As at the Latest Practicable Date, US$1,000,000 of the term loan facility remains outstanding. For further details, please refer to the announcements dated 11 November 2019 and 21 November 2019.

Save as disclosed above, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries has entered into material contracts (other than those entered into in the ordinary course of business) with persons who are Interested Persons during the period commencing three years before the Offer Announcement Date and ending on the Latest Practicable Date.

8. MATERIAL LITIGATION

As at the Latest Practicable Date, none of the Company nor any of its subsidiaries is engaged in any material litigation, either as plaintiff or defendant, which might materially and adversely affect the financial position of the Company or the Group, taken as a whole. As at the Latest Practicable Date, the Directors are not aware of any litigation, claims or proceedings pending or threatened against the Company or any of its subsidiaries or of any facts likely to give rise to any litigation, claims or proceedings, which might materially and adversely affect the financial position of the Company or the Group, taken as a whole.

9. FINANCIAL INFORMATION

9.1. Consolidated Statements Of Comprehensive Income

A summary of the audited consolidated statement of comprehensive income of the Group for FY2017, FY2018 and FY2019 is set out below.

	Audited 2019 S$'000	**Audited 2018 S$'000**	**Audited 2017 S$'000**
Revenue	74,801	83,832	60,731
Cost of sales	(64,802)	(69,874)	(46,125)
Gross Profit	9,999	13,958	14,606
Other Income	451	679	1,267
Distribution expenses	(1,733)	(2,147)	(1,743)
Administrative expenses	(16,294)	(13,117)	(11,921)
(Provision) / Write-back of impairment loss on financial assets	(3,771)	(506)	4
Finance costs	(550)	(585)	(273)
(Loss)/Profit before income tax	(11,898)	(1,718)	1,940
Income tax credit / (expenses)	417	(92)	(712)
(Loss)/Profit for the financial year	(11,481)	(1,810)	1,228

	Audited 2019 S$'000	**Audited 2018 S$'000**	**Audited 2017 S$'000**
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss			
Currency translation differences arising from consolidation	(442)	(812)	(206)
Currency translation differences realised through disposal of a subsidiary	-	-	(5)

Other comprehensive loss, net of tax	**(442)**	**(812)**	**(211)**
Total comprehensive (loss) / income for the financial year	**(11,923)**	**(2,622)**	**1,017**
Profit attributable to:			
Equity holders of the Company	(8,829)	(1,441)	611
Non-controlling interests	(2,652)	(369)	617
	(11,481)	**(1,810)**	**1,228**
Total comprehensive (loss) / income attributable to:			
Equity holders of the Company	(9,200)	(2,101)	484
Non-controlling interests	(2,723)	(521)	533
	(11,923)	**(2,622)**	**1,017**

The above summary is extracted from, and should be read together with, the annual reports of the Company for FY2017, FY2018 and FY2019, and the related notes thereto, copies of which are available for inspection at the Company's registered office as mentioned in **Section 14** of this Circular.

The audited consolidated financial statements of the Group for FY2019 are reproduced in **Appendix IV** to this Circular.

9.2. Consolidated Statement Of Financial Position

A summary of the audited consolidated statement of financial position of the Group as at 31 December 2017, 31 December 2018 and 31 December 2019 is set out below.

	Audited	**Audited**	**Audited**
	As at 31 December 2019 S$'000	**As at 31 December 2018 S$'000**	**As at 31 December 2017 S$'000**
ASSETS			
Property, plant and equipment	7,630	5,176	5,482
Right-of-use assets	715	-	-
Intangible assets	3,593	5,666	7,597
Deferred tax assets	653	114	82
Other receivable	-	613	489
	12,591	11,569	13,650
Current assets			
Inventories	6,186	2,997	2,056
Trade and other receivables	62,507	68,971	50,089
Income tax recoverable	143	365	144
Cash and bank balances	27,420	27,925	17,463
	96,256	100,258	69,752

TOTAL ASSETS	**108,847**	**111,827**	**83,402**
LIABILITIES			
Current liabilities			
Trade and other payables	52,592	47,443	37,149
Borrowings	10,940	8,284	6,848
Lease liabilities	323	-	-
Derivative financial instrument	3	-	-
Income tax payable	264	450	757
	64,122	56,177	44,754
Non-current liabilities			
Borrowings	1,310	917	1,284
Lease liabilities	242		
Deferred tax liabilities	28	581	875
	1,580	1,498	2,159
TOTAL LIABILITIES	**65,702**	**57,675**	**46,913**
NET ASSETS	**43,145**	**54,152**	**36,489**

	Audited As at 31 December 2019 S$'000	**Audited As at 31 December 2018 S$'000**	**Audited As at 31 December 2017 S$'000**
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	76,766	76,766	54,274
Other reserves	(3,395)	(3,261)	(3,312)
Accumulated losses	(33,487)	(24,658)	(22,662)
	39,884	48,847	28,300
Non-controlling interests	3,261	5,305	8,189
TOTAL EQUITY	**43,145**	**54,152**	**36,489**

The above summary is extracted from, and should be read together with, the annual reports of the Company for FY2017, FY2018 and FY2019 and the relevant financial statements and the related notes thereto.

9.3. Significant Accounting Policies

A summary of the significant accounting policies of the Group is set out in Note 2 to the audited consolidated financial statements of the Group for FY2019, which are reproduced in **Appendix IV** to this Circular.

Save as disclosed in this Circular and publicly available information on the Group (including but not limited to that contained in the audited consolidated financial statements of the Group for FY2019), there are no significant accounting policies or any points from the notes to the financial statements which are of major relevance for the interpretation of the accounts.

9.4. Changes In Accounting Policies

As at the Latest Practicable Date, there has been no change in the accounting policies of the Group since the date of its audited consolidated financial statements for FY2019 which will cause the figures set out in paragraphs 9.1 and 9.2 of **Appendix II** to this Circular to be not comparable to a material extent.

9.5. Material Changes In Financial Position

Save as disclosed in this Circular and in publicly available information on the Group (including but not limited to the annual report of the Company for FY2019, as at the Latest Practicable Date, there has been no known material change in the financial position of the Company since 31 December 2019, being the date to which the Company's last published audited financial statements were made up.

9.6. Material Change In Information

Save as disclosed in this Circular and save for the information relating to the Company and the Offer that is publicly available, there has been no material change in any information previously published by or on behalf of the Company during the period commencing from the Offer Announcement Date and ending on the Latest Practicable Date.

10. GENERAL

10.1. Costs And Expenses

All expenses and costs incurred by the Company in relation to the Offer will be borne by the Company.

10.2. Consents

RHT Capital Pte. Ltd., named as the independent financial adviser to the Independent Directors in respect of the Offer has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of: (a) its name; (b) the IFA Letter as set out in **Appendix I** to this Circular; and (c) all references thereto in the form and context in which they appear in this Circular.

Crowe Horwath First Trust LLP, named as the independent auditors of the Company, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of: (a) its name; (b) the independent auditor's report in relation to the audited financial statements of the Group for FY2019 as set out in **Appendix IV** to this Circular; and (c) all references thereto in the form and context in which they appear in this Circular.

11. STATEMENTS OF ASPIRATIONAL NATURE

The Company had on 18 December 2019 issued an announcement summarising the discussion at the shareholders' forum which included the following paragraph:

"Currently, the CEO is streamlining the operations, cutting down the costs and rationalizing the organization to improve the process and cost efficiency. The Group will continue leveraging on such experience and expertise to obtain contracts for water and waste management systems, while pursuing municipal opportunities to generate recurring income from investments in water supply and waste projects as well as keeping an eye on business opportunities outside the Environmental Systems and Water Management Services industry. Besides that, the Group is also further expanding its operations into Vietnam which will, barring unforeseen circumstances, present the Group with huge business opportunities in the water industry. The Group hopes that these initiatives will become fruitful and eventually bring the Group back to profitability."

The Company wishes to highlight that the statements made in the above paragraph were in response to a question posed from a Shareholder at the shareholders' forum as to when the Group would be turning profitable, and that such statements are purely aspirational in nature and are not intended to be profit forecasts, estimations or projections, and should not be treated as such.

The provisions in the Constitution relating to the rights of Shareholders in respect of capital, dividends and voting have been reproduced below.

All capitalised terms used in the following extracts shall have the same meanings ascribed to them in the Constitution and/or the Companies Act, a copy of which is available for inspection at the registered office of the Company at 280 Woodlands Industrial Park E5, #09-36 Harvest @ Woodlands, Singapore 757322 during normal business hours for the period during which the Offer remains open for acceptance.

"

SHARES

5. Subject to the Statutes, no shares may be issued without the prior approval of the Company in General Meeting but subject thereto and to these Articles relating to new shares and to any special right' attached to any share for the time being issued, the Directors may allot (with or without conferring any right of renunciation), grant options over or otherwise dispose of the same to such persons on such terms and conditions (including such consideration) and at such time as the Directors determine Provided Always that the rights attaching to shares of a class other than ordinary shares shall be expressed in the resolution creating the same. *Shares under control of Company in General Meeting.*

6(1). Subject to the limits referred to in Article 57, the Company in General Meeting may by Ordinary Resolution authorise the Directors to exercise any power of the Company to issue shares, such authority being confined to a particular exercise of that power or generally. Any such authority may be unconditional or subject to conditions and shall continue in force until the conclusion of the Annual General Meeting commencing next after the date on which the approval was given or the expiration of the period within which the next Annual General Meeting after that date is required by law to be held whichever is the earlier but may be previously revoked or varied by the Company in General Meeting. *Authority of Directors to issue shares.*

6(2). Subject to the terms and conditions of any application for shares, the Directors shall allot shares applied for within ten Market Days of the closing date (or such other period as may be approved by the Exchange) of any such application. The Directors may, at any time after the allotment of any share but before any person has been entered in the Register as the holder thereof or before such share is entered against the name of a Depositor in the Depository Register, as the case may be, recognise a renunciation thereof by the allottee in favour of some other person and may accord to any allottee of such share a right to effect such renunciation upon and subject to such terms and conditions as the Directors may think fit.

7. Any share in the Company may be issued with such preferred, qualified, deferred or other special rights, privileges and conditions or such restrictions, whether in regard to dividend, return of capital, voting or otherwise, as the Company may from time to time by Ordinary Resolution determine, and subject to the Statutes, the Company may issue preference shares which are or, at the option of the Company, are liable *Company may issue shares with preferred, qualified, deferred and* *to be redeemed on such terms and in such manner as the Company before the issue thereof may by Ordinary Resolution determine.* *other special rights.*

8. *The Company shall have the power to issue further preference capital ranking equally with or in priority to the preference capital then already issued.* *Issue of further preference shares.*

9. *Subject to the provisions of the Statutes, all or any of the special rights or privileges for the time being attached to any preference share for the time being issued may from time to time. (whether or not the Company is being wound up) be modified, affected, altered or abrogated and preference capital other than redeemable preference shares may be repaid if authorised by a Special Resolution passed by holders Of such preference shares at a special meeting called for the. purpose. To any such special meeting, all provisions of these Articles as to General Meetings of the Company shall mutatis mutandis apply but so that the necessary quorum shall be two persons at least holding or representing by. proxy not less than one third of the issued preference shares concerned and that every holder of the preference shares concerned shall be entitled on a poll to one vote for every such share held by him and that any holder of the preference shares concerned present either in person or by proxy may demand a poll Provided Always that where the necessary majority for such a Special Resolution is not obtained at the meeting, consent in writing if obtained from holders of three-fourths of the preference shares concerned within two months of the meeting shall be as valid and effectual as a Special Resolution carried at the meeting.* *Alterations to rights of preference shareholders.*

10. *Preference shares may be issued subject to such limitation thereof as may be prescribed by the Exchange. Preference shareholders shall have the same rights as ordinary Members as regards the receiving of notices, reports and balance sheets and the attending of General Meetings of the Company. Preference shareholders shall also have the right to vote at any meeting convened for the purpose of reducing the capital of the Company or winding up or sanctioning the sale of the undertaking of the Company or where the proposal to be submitted to the meeting directly affects their rights and privileges or when the dividend on the preference shares is more than six months in arrears.* *Rights of preference shareholders.*

11. *If by the conditions of allotment of any share, the whole or part of the amount or issue price thereof shall be payable by instalments, every such instalment shall, when due, be paid to the Company by the holder for the time being of the share or his legal personal representative.* *Instalments of shares.*

12. *The Company may pay commissions or brokerage on any issue of shares at such rate or amount and in such manner as the Directors may deem fit. Such commissions or brokerage may be satisfied by the payment of cash or the allotment of fully or partly paid shares or partly in one way and partly in the other. The payment or agreement to pay a commission or the* *Payment of commission.*

conferring of an option shall be in the discretion of the Directors on behalf of the Company.

13(1). *The Company shall not be bound to register more than three persons as the joint holders of any share except in the case of executors, administrators or trustees of the estate of a deceased Member.* *Joint holders.*

13(2). *Subject to Article 13(1), any two or more persons may be registered as joint holders of any share and the joint holders of a share shall be severally as well as jointly liable for the payment of all instalments and calls and interest (if any) due in respect of such share.*

13(3). *The joint holder first named in the Register or the Depository Register, as the case may be, shall as regards voting, proxy, service of notices and delivery of certificates and dividend warrants, be deemed to be the sole owner of such share.*

14. *No person shall be recognised by the Company as holding any share upon any trust, and the Company shall not be bound by or be required in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any share or any other rights in respect of any share other than an absolute right to the entirety thereof in the registered holder or in the person whose name is entered in the Depository Register in respect of that share, as the case may be, except only where these Articles otherwise provide or as required by the Statutes or pursuant to any order of Court.* *No trusts recognised.*

15. *No person shall exercise any rights of a Member in respect of a share until his name shall have been entered in the Register as the registered holder thereof or in the Depository Register in respect of such share, as the case may be, and, unless the Directors otherwise determine, such person shall have paid all calls and other moneys for the time being due and payable on any share held by him.* *Exercise of rights of Members.*

16(1). *The Company may, subject to and in accordance with the Act and any other relevant legislation, rules or regulations enacted or prescribed by any relevant authority from time to time, purchase or otherwise acquire its issued shares on such terms and in such manner as the Company may from time to time think fit. Any share which is so purchased or acquired by the Company may be deemed to be cancelled immediately on purchase or acquisition by the Company or, subject to the provisions of the Act, be held and dealt with by the Company as treasury shares. On the cancellation of any share as aforesaid, the rights and privileges attached to that share shall expire.* *Power to purchase or acquire its issued share.*

16(2). *The Company shall not exercise any right in respect of treasury shares other than as provided by the Act. Subject thereto, the Company may hold* *Treasury shares.*

or deal with its treasury shares in the manner authorised by, or prescribed pursuant to, the Act.

TRANSFER OF SHARES

40. *There shall be no restriction on the transfer of fully paid shares (except where required by law or by the rules, bye-laws or listing rules of the Exchange). All transfers of shares may be effected by way of book-entry in the Depository Register Provided Always that the legal title in the shares may be transferred by the registered holders thereof by an instrument of transfer in the form approved by the Directors and the Exchange. The, instrument of transfer shall be left at the' Office accompanied by a certificate of payment of stamp duty (if any), the certificate of the shares to be transferred and such other evidence (if any) as the Directors may reasonably require to show the right of the transferor to make the transfer. The transferor shall be deemed to remain the registered holder of the shares until the name of the transferee is entered in the Register in respect thereof.* *Shares to be transferable.*

41. *The instrument of transfer shall be signed 'both by the transferor and by the transferee, and it shall be witnessed Provided Always that an instrument of transfer in respect Of which the transferee is the Depository shall be effective although not signed or witnessed by or on behalf of the Depository.* *Instrument of transfer.*

42. *Shares of different classes shall not be comprised in the same instrument of transfer.* *Only shares of same class to be in same instrument.*

43. *No share shall in any circumstances be transferred to any infant, bankrupt or person of unsound mind.* *Restriction on transfer.*

44. *All instruments of transfer which are registered shall be retained by the Company, but any instrument of transfer which the Directors may refuse to register shall (except in any case of fraud) be returned to the party presenting the same.* *Retention of instrument of transfer.*

45. *The Directors may decline to accept any instrument of transfer unless:-* *Fees relating to transfers.*

(a) the amount of proper duty (if any) with which each instrument of transfer is chargeable under any law for the time being in force relating to stamps is paid; and

(b) such fee not exceeding two Singapore Dollars as the Directors may from time to time determine or such other sum as may from time to time be prescribed by the Exchange is paid to the Company in respect of the registration of any instrument of transfer, probate, letters of

administration, certificate of marriage or death, power of attorney or any document relating to or affecting the title to the shares.

46. *The Directors may refuse to register the transfer of shares or allow the entry of or against a person's name in the Depository Register in respect of shares transferred or to be transferred to such person:-* *Power of Directors to refuse to register.*

(a) which are not fully paid up; or

(b) on which the Company has a lien.

47. *If the Directors refuse to register any transfer of any share they shall, where required by the Statutes, serve on the transferor and transferee, within ten Market Days beginning with the day on which the application for transfer was lodged with the Company, a notice in writing Informing each of them of such refusal and of the facts which are considered to justify the refusal.* *Notice of refusal to be sent by Company.*

48. *The Register may be closed at such times and for such periods as the Directors may from time to time determine Provided Always that the Register shall not be closed for more than thirty days in any year Provided Always that the Company shall give prior notice of such closure as may be required to the Exchange stating the period and purpose or purposes for which such closure is to be made.* *Closure of the Register.*

STOCK

52. *The Company in General Meeting may by Ordinary Resolution convert any paid-up shares into stock and may from time to time reconvert such stock into paid-up shares.* *Conversion of shares to stock.*

53. *When any shares have been converted into stock the several holders of such stock may transfer their respective interests therein or any part of such interests in such manner as the Company in General Meeting shall direct, but in default of any direction then in the same manner and subject to the same regulations as and subject to which the shares from which the stock arose might previously to conversion have been transferred or as near thereto as circumstances will admit. But the Directors may if they think fit from time to time fix the minimum unit of stock transferable.* *Stockholders entitled to transfer interest.*

54. *The several holders of stock shall be entitled to participate in the dividends and profits of the Company according to the number of stock units held by them and such interests shall, in proportion to the number of stock units thereof, confer on the holders thereof respectively the same rights, privileges and advantages for the purposes of voting at meetings of the Company and for other purposes as if they held the shares from which- the stock arose, but so that none of such rights, privileges or advantages, except the participation in the dividends, profits and assets of the Company, shall be conferred by any such number of* *Stockholders entitled to profits.*

stock units as would not, if existing in shares, have conferred such rights, privileges or advantages.

INCREASE OF CAPITAL

56. *The Company in General Meeting may from time to time by Ordinary Resolution, whether all the shares for the time being issued have been fully paid up or not, increase its capital by the creation and issue of new shares, such aggregate increase to be of such amount as the Company by the resolution authorising such increase shall direct.* *Power to increase capital.*

57(1). *Unless otherwise determined by the Company in General Meeting or except as permitted by the listing rules of the Exchange, all new shares shall, before issue, be offered to such persons who as at the date of the offer are entitled to receive notices from the Company of General Meetings, in proportion, as nearly as the circumstances admit, to the number of the existing shares to which they are entitled.* *Issue of new shares to Members.*

57(2). *The offer shall be made by notice specifying the number of shares offered and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered. the Directors may dispose of those shares in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new shares which (by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares) cannot, in the opinion of the Directors, be conveniently offered in the manner hereinbefore provided.* *Notice of issue.*

58. *Notwithstanding Article 56 above, the Company may pursuant to Section 161 of the Act by Ordinary Resolution in General Meeting give to the Directors a general authority, either unconditionally or subject to such conditions as may be specified in the Ordinary Resolution, to issue shares whether by way of rights, bonus or otherwise, and make or grant offers. agreements or options (collectively, Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares, and (notwithstanding the authority conferred by the Ordinary Resolution may have ceased to be in force) Issue shares in pursuance of any instrument made or granted by the Directors while the Ordinary Resolution was in force, provided that:-* *Issue of shares up to fifty per cent.*

(a) the aggregate number of shares to be issued pursuant to the Ordinary Resolution (including shares to be issued in pursuance of instruments made or granted pursuant to the Ordinary Resolution) does not exceed fifty per cent (or such other limit as may be prescribed by the Exchange) of the issued share capital of the Company (as calculated in accordance with sub-paragraph (b) below), of which the aggregate number of shares to be issued other than on a pro-rata basis to the Members of the Company (including shares to be issued in

pursuance of Instruments made or granted pursuant to the Ordinary Resolution) does not exceed twenty per cent (or such other limit as may be prescribed by the Exchange) of the issued share capital of the Company (as calculated in accordance with sub-paragraph (b) below); and

(b) (subject to such manner of calculation as may be prescribed by the Exchange) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (a) above, the percentage of issued share capital shall be based on the issued share capital of the Company at the time that the Ordinary Resolution is passed, after adjusting for new shares arising from the conversion or exercise of any convertible securities or exercise of employee share options or vesting of share awards on issue at the time that the Ordinary Resolution is passed, and any subsequent consolidation or subdivision of shares; and

(c) unless previously revoked or varied by the Company in General Meeting, such authority conferred by the Ordinary Resolution shall not continue beyond the conclusion of the Annual General Meeting of the Company next following the passing of the Ordinary Resolution or the date by which such Annual General Meeting is required by law to be held, or the expiration of such other period as may be prescribed by the Act (whichever is the earliest).

59. Subject to any directions that may be given in accordance with the powers contained in the Memorandum of Association or these Articles, any capital raised by creation of new shares shall be considered as part of the original capital and all new shares shall be subject to the same provisions with reference to the payment of calls, transfer, transmission, forfeiture, lien and otherwise as if it had been part of the original capital. *New capital considered part of original capital.*

ALTERATION OF CAPITAL

60(1). The Company may by Ordinary Resolution:- *Alteration of capital.*

(a) consolidate and divide its capital; or

(b) subdivide its existing shares or any of them (subject nevertheless to the provisions of the Act) provided always that in such subdivision the proportion between the amount paid and the amount (if any) unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived. The resolution by which the subdivision is effected may determine that, as between the holders of the resulting shares, one or more of such shares may have any such preferred, deferred or other special rights or be subject to any restriction as the Company has power to attach to unissued or new shares; or

(c) subject to the Statutes, convert any class of shares into any other class of shares.

60(2). The Company may by Special Resolution reduce its share capital or any other undistributable reserve in any manner and subject to any requirement authorised and consent required by law. Without prejudice to the generality of the foregoing, upon cancellation of any share purchased or otherwise acquired by the Company pursuant to these Articles and the Act, the number of issued shares of the Company shall be diminished by the number of shares so cancelled, and where any such cancelled share is purchased or acquired out of the capital of the Company, the amount of the share capital of the Company shall be reduced accordingly.

GENERAL MEETINGS

66. In addition to any other meetings, a General Meeting shall be held at least once in every calendar year, at such time and place as may be determined by the Directors, but so that no more than fifteen months shall be allowed to elapse between any two such General Meetings. *General Meetings.*

67. The abovementioned General Meetings shall be called Annual General Meetings. All other General Meetings shall be called Extraordinary General Meetings. *Annual General Meetings.*

68. The First Annual General Meeting of the Company shall be held at such time within a period of not more than eighteen months from the date of incorporation of the Company and at such time and place as the Directors may determine. *First Annual General Meeting.*

69. The Directors may call an Extraordinary General Meeting of the Company whenever they think fit in accordance with the Statutes. *Directors may call Extraordinary General Meetings.*

70. The Directors shall, on the requisition of the holders of not less than one-tenth of voting shares of the Company upon which all calls or other sums then due have been paid, forthwith proceed to convene an Extraordinary General Meeting of the Company, and in the case of such requisition the following provisions shall have effect:- *Extraordinary General Meetings called on requisition of shareholders.*

(a) The requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the Office, and may consist of several documents in like form each signed by one or more requisitionists.

(b) If the Directors of the Company do not proceed to cause a meeting to be held within twenty-one days from the date of the requisition being so deposited, the requisitionists or any of them representing more

than one-half of the voting rights of all of them may themselves convene the meeting, but any meeting so convened shall not be held after three months from the date of the deposit.

(c) In the case of a meeting at which a resolution is to be proposed as a Special Resolution the Directors shall be deemed not to have duly convened the meeting if they do not give such notice as is required by the Statutes.

(d) Any meeting convened under this Article by the requisitionists shall be convened in the same manner as nearly as possible as that in which meetings are to be convened by Directors.

71. Subject to the Statutes relating to the convening of meetings to pass Special Resolutions. at least fourteen days' notice in writing (exclusive both of the day on which the notice is served or deemed to be served and of the day for which the notice is given) specifying the place, day and hour of the meeting, and in case of special business, a notice setting out the general nature of such special business, accompanied by a statement regarding the effect of any proposed resolution in respect of such special business, shall be given to all Members other than such as are not entitled under these Articles to receive such notices from the Company. At least fourteen days' notice in writing (exclusive both of the day on which the notice is served or deemed to be served and of the day for which the notice is given) of any General Meeting shall be given and at least twenty-one days' notice in wilting (exclusive both of the day on which the notice is served or deemed to be served and of the day for which the notice is given) in the case of a Meeting to pass Special Resolution shall be given to the Exchange. Every such notice shall be published in at least one English Language daily newspaper circulating in Singapore at least fourteen days before the meeting. Whenever any meeting is adjourned for fourteen days or more, at least seven days' notice of the place and hour of such adjourned meeting shall be given in like manner Provided Always that when a meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. *Notice of meeting.*

72. Any Member entitled to be present and vote at a meeting or his proxy may submit any resolution to any General Meeting, provided that at least for the prescribed time before the day appointed for the meeting he shall have served upon the Company a notice in writing by him containing the proposed resolution, and stating his intention to submit the same. The prescribed time abovementioned shall be such that, between the date that the notice is served and the day appointed for the meeting, there shall be not less than three nor more than fourteen intervening days *Members may submit resolution to meeting on giving notice to Company.*

73. Upon receipt of any such notice as In the last preceding Article mentioned, the Secretary shall include in the notice of the meeting in any case where the notice of intention is received before the notice of the meeting is *Secretary to give notice to Members.*

issued, and shall in any other case issue as quickly as possible to the Members notice that such resolution will be proposed.

74. *The accidental omission to give any notice to or non-receipt of any notice by any Member shall not invalidate the meeting or any resolution passed or proceedings at any such meeting.* *Accidental omission to give notice.*

PROCEEDINGS AT GENERAL MEETINGS

75. *All business shall be deemed special that is transacted at an Extraordinary General Meeting and also all business that is transacted at an Annual General Meeting with the exception of the consideration of the accounts, balance sheets and reports (if any) of the Directors and Auditors, the fixing of the remuneration of Directors, the election of Directors in the place of those retiring, the declaration of dividends and the appointment of and the fixing of the remuneration of the Auditors.* *Special business.*

76. *Save as is herein otherwise provided, two Members present in person or by proxy shall be a quorum for a General Meeting and no business shall be transacted at any General Meeting unless the quorum is present at the commencement of the business but shall, as required by the Act, exclude the Company. where it is a Member by reason of its holding of treasury shares, provided that (a) a proxy representing more than one Member shall only count as one Member for the purpose of determining the quorum; and (b) where a Member is represented by more than one proxy such proxies shall count as only one Member for the purpose of determining quorum. A corporation being a Member shall be deemed to be personally present if represented in accordance with the provisions of Article 91.* *Quorum.*

77. *If within half an hour from the lime appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of Members, shall be dissolved; in any other case it shall stand adjourned to the same day in the next week, at the same time and place. At the adjourned meeting, any two or more Members present in person or by proxy shall be a quorum.* *If quorum is not present.*

78. *The Chairman (if any) of the Board of Directors shall preside as Chairman at every General Meeting, but if there be no such Chairman, or if at any meeting he shall not be present within fifteen minutes after the time appointed for holding the same, or shall be unwilling. to act as Chairman, the Members present shall choose some Director or, if no Director be present or if all the Directors present decline to take the chair, one of themselves to be Chairman of the meeting.* *Chairman.*

79. *The Chairman may with the consent of any meeting at which a quorum is present (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.* *Adjournment.*

80. *At every General Meeting a resolution put to the vote of the meeting shall be decided on a show of hands by the Members present in person and entitled to vote, unless before or upon the declaration of the result of the show of hands a poll be demanded by:-* *How matters are decided.*

(a) the Chairman of the meeting; or

(b) not less than two Members present in person or by proxy and entitled to vote; or

(c) a Member or Members present in person or by proxy, holding or representing, as the case may be:-

(i) not less than one-tenth of the total voting rights of all Members entitled to vote at the meeting; or

(ii) not less than 10 per cent. of the total number of paid-up shares of the Company (excluding treasury shares)shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

81(1). *If a poll is duly demanded it shall be taken in such manner as the Chairman directs, and the results of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.* *Chairman's direction as to poll.*

81(2). *No poll shall be demanded on the election of a Chairman of a meeting or on a question of adjournment. A poll demanded on any other question shall be taken at such time as the Chairman of the meeting directs.*

82. *Unless a poll be so demanded, a declaration by the Chairman of the meeting that a resolution has been carried, or has been carried by a particular majority, or lost, or not carried by a particular majority shall be conclusive, and an entry to that effect in the minute book of the Company shall be conclusive evidence thereof, without proof of the number or proportion of the votes recorded in favour of or against such resolution.* *Declaration of Chairman conclusive.*

83(1). *No objection shall be raised as to the admissibility of any vote except at the meeting or adjourned meeting, as the case may be, at which the vote objected to is or may be given, tendered or cast, and every vote not disallowed at such meeting shall be valid for all purposes. Any such objection shall be referred to the Chairman of the meeting whose decision shall be final and conclusive.* *Objection to admissibility.*

83(2). *If any votes shall be counted which ought not to have been counted, or might have been rejected, the error shall not vitiate the result of the voting unless it be pointed out at the same meeting, or at any adjournment thereof, and unless in the opinion of the Chairman at the meeting or at any adjournment thereof as the case may be, it shall be of sufficient importance to vitiate the result of the voting.*

84. *In case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting at which the show of hands takes place or at which the poll is demanded, as the case may be, shall have a second or casting vote.* *In the event of equality of votes.*

VOTES OF MEMBERS

85(1). *Subject to and without prejudice to any special privileges or restriction as to voting for the time being attached to any special class of shares for the time being forming part of the capital of the Company and to Article 16(2):-* *Voting rights.*

(a) every Member who is present in person or by proxy shall have one vote on a show of hands, provided the Chairman shall be entitled to treat the first named proxy as the authorised representative to vote where a Member is represented by two proxies; and

(b) every Member who is present in person or by proxy, in case of a poll, shall have one vote for every share which he holds or represents and upon which all calls or other sums due thereon to the Company have been paid.

85(2). *For the purpose of determining the number of votes which a Member, being a Depositor, or his proxy may cast at any General Meeting upon a poll being called, the number of shares held or represented shall, in relation to the shares of that Depositor, be the number of shares entered against his name in the Depository Register as at the Cut-Off Time as certified by the Depository to the Company.*

86. *In the case of joint holders the vote of the senior who tenders a vote whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the Register or the Depository Register, as the case may be.* *Rights of joint holders.*

87. *Unless the Directors otherwise determine, no person other than a Member who shall have paid everything for the time being due from him and payable to the Company in respect of his shares, shall be entitled to be present or to vote on any question either personally or by proxy at any General Meeting.* *Members only entitled to vote upon full payment.*

88. *A Member of unsound mind, or in respect of whom an order has been made by any Court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll by the committee, curator bonis, or other person in the nature of committee or curator bonis appointed by that Court, and any such committee, curator bonis, or other person may. on a poll, vote by proxy.* *Votes of Members of unsound mind.*

89. *On a poll, votes may be given either personally or by proxy and a person entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way* *Votes personal or by proxy.*

90(1). A proxy need not be a Member, *Proxies.*

90(2). A Member shall not be entitled to appoint more than two proxies to attend and vote at the same General Meeting Provided Always that where the Member is a Depositor, the Company shall be entitled and bound:-

(a) to reject any instrument of proxy lodged if the Depositor is not shown to have any shares entered against his name in the Depository Register as at the Cut-Off Time as certified by the Depository to the Company;

(b) to accept as the maximum number of votes which in aggregate the proxy or proxies appointed by the Depositor is or are able to cast on a poll a number. which is the number of shares entered against the name of that Depositor in the Depository Register as at the Cut-Off Time as certified by the Depository to the Company, whether that number be greater or smaller than the number specified in any instrument of proxy executed by or on behalf of that Depositor; and

(c) in determining rights to vote and other matters in respect of a completed instrument of proxy submitted to it, to have regard to the instructions (if any) given by and the notes (if any) set out in the instrument of proxy.

90(3). In any case where a form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy. If no proportion is specified, the Company shall be entitled to treat the first named proxy as representing the entire number of shares entered against his name in the Depository Register and any second named proxy as an alternate to the first named or at the Company's option to treat the instrument of proxy as invalid.

91. Any corporation which is a Member may, by resolution of its directors or other governing body, authorise any person to act as its representative at any meetings of the Company or any class Of Members of the Company, and such representative shall be entitled to exercise the same powers on behalf of the corporation which he represents as if he had been an individual shareholder and such corporate Member shall for the purpose of these Articles (but subject to the Act) be deemed to be present in person at any such meeting if a person so authorised is present thereat. *Corporation may appoint representative.*

92. An instrument appointing a proxy shall be in writing in any usual or common form (including the form approved from time to time by the Depository) or in any other form which the Directors may approve and:- *Execution of instrument of proxy on behalf of appointor.*

(1) in the case of an individual shall be signed by the appointor or his attorney;

(2) in the case of a corporation shall be either given under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation.

93. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or the power of attorney or other authority, if any, or a duly certified copy thereof shall (failing previous registration with the Company) if required by law, be duly stamped and be deposited at the Office, not less than forty-eight hours before the time for holding the Meeting or adjourned meeting at which the person named in the instrument proposes to vote and in default the instrument of proxy shall not be treated as valid. — *Lodgement of instrument appointing proxy.*

94. The signature on an instrument of proxy need not be witnessed. — *No witness needed for instrument of proxy.*

95. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death of the principal or revocation of the proxy or transfer of the share in respect of which the vote is given Provided Always that no notice in writing of the death or revocation or transfer shall have been received at the Office one hour at least before the time fixed for holding the meeting. — *When vote by proxy valid through authority revoked.*

96. An instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll and to speak at the meeting. — *Instrument deemed to confer authority.*

DIVIDENDS

133. The profits of the Company, subject to any special rights relating thereto created or authorised to be created by these Articles and subject to the provisions of these Articles as to the reserve fund shall be divisible among the Members in proportion to the amount of capital paid up or credited as paid up on the shares held by them respectively. — *Appropriation of profits.*

134. The Company in General Meeting may by Ordinary Resolution declare a dividend on or in respect of any share to the Members according to their rights and interest in the profits and may fix the time for payment No larger dividend shall be declared than is recommended by the Directors but the Company in General Meeting may declare a smaller dividend. — *Declaration of dividend.*

135. No dividend shall be payable except out of the profits of the Company. No dividend shall carry interest. — *Dividend payable out of profits.*

136. The declaration of the Directors as to the net profits of the Company shall be conclusive. — *Declaration conclusive.*

137. The Directors may from time to time pay to the Members such interim dividends as in their judgment the position of the Company justifies provided no such dividends shall be declared more than once in six months. *Interim dividend.*

138. The Directors may retain any dividends on which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities, or engagements in respect of which the lien exists. *Debts may be deducted.*

139. A transfer of shares shall not pass the right to any dividend declared thereon before the registration of the transfer or the entry of the shares against the Depositor's name in the Depository Register, as the case may be. *Effect of transfer.*

140. Any General Meeting declaring a dividend may direct payment of such dividend wholly or in part by the distribution of specific assets, and in particular of wholly or partly paid-up shares, debentures or debenture stock of the Company, or wholly or partly paid-up shares, debentures or debenture stock of any other company, or in any one or more of such ways, and the Directors shall give effect to such resolution; and where any difficulty arises in regard to the distribution, they may settle the same as they think expedient, and in particular may issue fractional certificates, and may fix the value for distribution of such specific assets, or any part thereof and may determine that cash payment shall be made to any Member upon the footing of the value so fixed, in order to adjust the rights of all parties, and may vest any such specific assets in trustees upon such trusts for the persons entitled to the dividends as may seem expedient to the Directors. Where requisite, a proper contract shall be filed in accordance with Section 63 of the Act, and the Directors may appoint any person to sign such contract on behalf of the persons entitled to the dividend, and such appointment shall be effective. *Dividend in specie.*

141. The Directors may retain the dividends payable upon shares in respect of which any person is under the provisions as to the transmissions of shares hereinbefore contained entitled to become a Member, or which any person under those provisions is entitled to transfer until such person shall become a Member in respect of such shares or shall duly transfer the same. *Power to retain dividends.*

142. In case several persons are registered in the Register or entered in the Depository Register, as the case may be, as the holders of any share, any resolution of the Directors or the Company in General Meeting declaring a dividend on shares of any class may specify that the dividend shall be payable to such persons at the close of business on a particular date and thereupon the dividend shall be payable in accordance with their respective holdings so registered. Any person registered in the Register or in the Depository Register, as the case may be, as the holder or joint holder of any share or is entitled jointly to a share in consequence of the death or bankruptcy of the holder may give effectual receipts for *Payment to and receipt by joint holders.*

dividends, bonuses, other moneys payable or properties distributable and payment on account of dividends on or in respect of such shares.

143. *Notice of declaration of any dividend, whether interim or otherwise, may be given by advertisement.* *Notice of dividend.*

144. *Unless otherwise directed, any dividend may be paid by cheque, dividend warrant or Post Office Order, sent through the post to the registered address appearing in the Register or the Depository Register, as the case may be, of the Member or person entitled, or where two or more persons are registered in the Register or entered in the Depository Register, as the case may be, as joint holders or are entitled to the dividend as a result of the death or bankruptcy of the holder, to that one whose name shall stand first on the Register or the Depository Register, as the case may be, in respect thereof and every cheque, dividend warrant or Post Office Order so sent shall be made payable to the order of the person to whom it is sent or to any person and address as such Member(s) or person(s) may direct in writing. The Company shall not be responsible for the loss of any cheque, dividend warrant or Post Office Order, which shall be sent by post duly addressed to and at the sole risk of the Member or person for whom it is intended. Payment of the cheque, dividend warrant or Post Office Order by the bank upon which they are respectively drawn shall be a full and valid discharge to the Company. Notwithstanding the provisions of these Articles, payment by the Company to the Depository of any dividend payable to a Depositor shall also be a full and valid discharge of the Company from liability to the Depositor in respect of that payment to the extent of the payment made to the Depository.* *Payment by post.*

145. *The Depository will hold all dividend unclaimed for six years after having been declared and paid before release to the Directors, and the Directors may Invest or otherwise make use of the unclaimed dividends for the benefit of the Company until claimed.* *Unclaimed dividends.*

BONUS ISSUES, CAPITALISATION OF PROFITS AND RESERVES

146(1). *The Directors may, with the sanction of the Company byway of an Ordinary Resolution, including any Ordinary Resolution passed pursuant to Article 5:-* *Capitalisation of profits and reserves.*

(a) issue bonus shares for which no consideration is payable to the Company to the persons registered as holders of shares in the Register or (as the case may be) the Depository Register at the close of business on:

(i) the date of the Ordinary Resolution (or such other date as may be specified therein or determined as therein provided); or

(ii) (in the case of an Ordinary Resolution passed pursuant to Article 5) such other date as may be determined by the Directors,

in proportion to their then holdings of shares; and

(b) capitalise any sum for the time being standing to the credit of any of the Company's reserve accounts or other undistributable reserve or any sum standing to the credit of the profit and loss account by appropriating such sum to the persons registered as holders of shares in the Register or (as the case may be) the Depository Register at the close of business on:

(i) the date of the Ordinary Resolution (or such other date as may be specified therein or determined as therein provided); or

(ii) (in the case of an Ordinary Resolution passed pursuant to Article 5) such other date as may be determined by the Directors,

in proportion to their then holdings of shares and applying such sum on their behalf in paying up in full unissued shares (or, subject to any special rights previously conferred on any shares or class of shares for the time being issued, unissued shares of any other class not being redeemable shares) for allotment and distribution credited as fully paid up to and amongst them as bonus shares in the proportion aforesaid.

145(2). The Directors may do all acts and things considered necessary or expedient to give effect to any such bonus issue or capitalisation under Article 134(1), with full power to the Directors to make such provisions as they think fit for any fractional entitlements which would arise on the basis aforesaid (including provisions whereby factional entitlements are disregarded or the benefit thereof accrues to the Company rather than to the Members concerned). The Directors may authorise any person to enter, on behalf of all the Members interested, into an agreement with the Company providing for any such bonus issue or capitalisation and matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.

146(3). In addition and without prejudice to the powers provided for by Articles 145(1) and 145(2), the Directors shall have the power to issue shares for which no consideration is payable and to capitalise any undivided profits or other moneys of the Company not required for the payment or provision of any dividend on any shares entitled to cumulative or non-cumulative preferential dividends (including profits or other moneys carried and standing to any reserve or reserves) and to apply such profits or other moneys in paying up in full unissued shares, in each case on terms that such shares shall. upon issue, be held by or for the benefit of participants of any share incentive or option scheme or plan implemented by the

Company and approved by shareholders in General Meeting, in such manner and on such terms as the Directors shall think fit.

WINDING UP

166. *The Directors shall have the power to present a petition to the court in the name and on behalf of the Company for the Company to be wound up.* *Directors have power to present petition.*

167. *If the Company shall be wound up, and the assets available for distribution among the Members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the Members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up, on the shares held by them respectively. And if in a winding up the assets available for distribution among the Members shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the Members in proportion to the capital at the commencement of the winding up paid up or which ought to have been paid up on the shares held by them respectively. But this Article is to be without prejudice to the rights of the holders of shares issued upon special terms and conditions.* *Distribution of assets in winding up.*

168. *If the Company shall be wound up, the liquidators may, with the sanction of a Special Resolution, divide among the Members in specie any part of the assets of the Company and any such division may be otherwise than in accordance with the existing rights of the Members, but so that if any division is resolved or otherwise than in accordance with such rights, the Members shall have the same right of dissent and consequential rights as if such resolution were a Special Resolution passed pursuant to Section 306 of the Act. A Special Resolution sanctioning a transfer or sale to another company duly passed pursuant to the said Section may in like manner authorise the distribution of any share or other consideration receivable by the Liquidators amongst the Members otherwise than in accordance with their existing rights; and any such determination, shall be binding upon all the Members subject to the right of dissent and consequential rights conferred by the said Section.* *Distribution of assets in specie.*

169. *On the voluntary liquidation of the Company, no commission or fee shall be paid to a liquidator unless it shall have been ratified by the Members. The amount of such payment shall be notified to all Members at least seven days prior to the meeting at which it is to be considered.”* *Commission or fee to liquidators.*

The audited consolidated financial statements of the Group for FY2019 which are set out below have been reproduced from the Company's annual report for FY2019, and were not specifically prepared for inclusion in this Circular.

All capitalised terms used in Note 2 to the audited consolidated financial statements of the Group for FY2019 set out below shall have the same meanings given to them in the annual report of the Company for FY2019.

A copy of the annual report of the Company for FY2019 is available for inspection at the registered address of the Company at 280 Woodlands Industrial Park E5, #09-36 Harvest @ Woodlands, Singapore 757322, during normal business hours for the period during which the Offer remains open for acceptance.

DARCO WATER TECHNOLOGIES LIMITED
Registration No. 200106732C
(Incorporated in Singapore)
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2019
TOGETHER WITH DIRECTORS' STATEMENT
AND AUDITOR'S REPORT

DARCO WATER TECHNOLOGIES LIMITED
(Incorporated in Singapore)
AND SUBSIDIARIES

DIRECTORS' STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The directors present their statement to the members together with the audited financial statements of Darco Water Technologies Limited (the "Company") and subsidiaries (the "Group") for the financial year ended 31 December 2019 and the statement of financial position of the Company as at 31 December 2019.

In the opinion of the directors,

(a) the statement of financial position of the Company and the consolidated financial statements of the Group as set out on pages 10 to 108 are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 31 December 2019 and of the financial performance, changes in equity and cash flows of the Group for the financial year then ended; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The board of directors has, on the date of this statement, authorised these financial statements for issue.

Directors

The directors of the Company in office at the date of this statement are as follows:

Wang Zhi	
Wang Yaoyu	
Gn Jong Yuh, Gwendolyn	(appointed on 2 May 2019)
Ong Joo Mien	(appointed on 2 May 2019)
Tay Lee Chye Lester	
Tay Von Kian	
Poh Kok Hong	(appointed on 1 July 2019)

Directors' interests in shares or debentures

According to the register kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Cap. 50, none of the directors and chief executive officer holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Direct interests		Deemed interests	
	At 1 January 2019	At 31 December 2019	At 1 January 2019	At 31 December 2019
Company				
Ordinary shares				
Wang Zhi	27,680,000	27,680,000	-	-
Wang Yaoyu	-	-	13,387,118	13,387,118

DIRECTORS' STATEMENT (Continued)

Directors' interests in shares or debentures (Continued)

Mr. Wang Zhi, who by virtue of his interests of not less than 20% of the issued capital of the Company is deemed to have an interest in the whole of the share capital of the Company's wholly owned subsidiaries and in ordinary shares held by the Company in the following subsidiaries that are not wholly owned by the Group:

	Deemed interests	
	At 1 January 2019	At 31 December 2019
Wuhan Kaidi Water Services Co., Ltd		
Ordinary shares	36,000,000	36,000,000
Darco Environmental (Philippines) Inc.		
Ordinary shares	65,000	65,000
Puzer Asia Pte. Ltd.		
Ordinary shares	140,000	140,000
Darco Infraco Vietnam Water Pte. Ltd.		
Ordinary shares	-	1,040,816
Darco Ba Lai Water Supply Co., Ltd		
Ordinary shares	-	76,500,000,000
Darco Nghe An Co., Ltd		
Ordinary shares	-	9,000,000,000
Darco Ha Tinh Co., Ltd		
Ordinary shares	-	9,000,000,000
PT Panghegar Energy Indonesia		
Ordinary shares	-	6,000
PT Jabar Bersih Lestari		
Ordinary shares	-	96,000

There was no change in any of the above-mentioned interests in the Company or its related corporations between the end of the financial year and 21 January 2020.

DIRECTORS' STATEMENT (Continued)

Arrangements to enable directors to acquire benefits by means of the acquisition of shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Share options

On 6 November 2014, the shareholders of the Company have approved the proposed Darco Performance Share Plan ("Share Plan") as part of a remuneration and compensation plan for attracting as well as retaining executive personnel and Directors.

Directors of the Company and its subsidiaries (including Non-Executive Directors) and Directors and employees of an associated company where the Company has control over the associated company are eligible in the Share Plan.

The number of shares available under the said Share Plan will be subject to the maximum limit of 15% of the Company's total issued shares.

As at the date of this report, no shares have been granted under the Share Plan.

During the financial year, there were:

- no options granted by the Company or its subsidiaries to any person to take up unissued shares in the Company or its subsidiaries;
- no shares issued by virtue of any exercise of option to take up unissued shares of the Company or its subsidiaries; and
- no unissued shares of the Company or its subsidiaries under option.

Audit committee

The members of the Audit Committee at the end of the financial year are as follows:

Tay Lee Chye Lester	(Chairman of the Audit Committee and Independent Director)
Tay Von Kian	(Independent Director)
Gn Jong Yuh, Gwendolyn	(Independent Director)
Ong Joo Mien	(Independent Director)

DIRECTORS' STATEMENT (Continued)

Audit committee (Continued)

The Audit Committee carried out its functions in accordance with Section 201B (5) of the Singapore Companies Act, Cap. 50, the Listing Manual of the Singapore Exchange Securities Trading Limited and the Code of Corporate Governance. In performing those functions, the Audit Committee reviewed:

- the scope and the results of internal audit procedures with the internal auditor;
- the audit plan of the Company's independent auditors and any recommendations on internal accounting controls arising from the statutory audit;
- the assistance given by the Company's management to the independent auditors;
- the periodic results announcements prior to their submission to the Board for approval;
- the statement of financial position of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2019 prior to their submission to the Board of Directors, as well as the independent auditor's report on the statement of financial position of the Company and the consolidated financial statements of the Group; and
- interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited).

The Audit Committee has recommended to the Board of Directors that the independent auditors, Crowe Horwath First Trust LLP, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company. The Audit Committee has conducted an annual review of non-audit services provided by the auditors to satisfy itself that the nature and extent of such services will not affect the independence and objectivity of the external auditors before confirming their re-nomination.

In appointing the external auditors for the Company and subsidiaries, the Company has complied with Rules 712 and 715 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

Further details regarding the Audit Committee are disclosed in the Corporate Governance Report.

Independent auditors

The independent auditors, Crowe Horwath First Trust LLP, have expressed their willingness to accept re-appointment as auditors of the Company.

On behalf of the Board of Directors

WANG ZHI	**POH KOK HONG**
Director	Director

3 June 2020

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Darco Water Technologies Limited ("the Company") and its subsidiaries ("the Group"), set out on pages 10 to 108, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ("the Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matter is the matter that, in our professional judgement, was of most significant in our audit of the financial statements of the current year. The matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED (Continued)

Key Audit Matter (Continued)

<table>
<tr><td colspan="2">Revenue recognition using input method
Refer to following notes to the financial statements
~ Note 2 "Significant accounting policy" and "Critical accounting estimates, assumptions and judgement"
~ Note 17 "Revenue"</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>In the Engineered Environmental Systems segment, the Group recognised revenue from its contract revenue over time. Such revenue amounted to $53.7 million (2018: $63.7 million) for the current financial year, representing 72% (2018: 76%) of the Group's revenue.

Input method (cost method) is used to estimate the progress to complete the performance obligation, and that involves a number of significant estimates and judgements by the management, including:
• estimating the total contract costs, including the costs to complete the contract; and
• appropriately provide for impairment loss in onerous contracts.

We focused on this area in view of significant judgements involved in estimating total contract costs, which is susceptible to management bias.</td><td>We have discussed with management and project managers to obtain understanding of the nature of the projects. Our key audit procedures in relation to the accuracy of the revenue recognised over time are as summarised below:
• Examined significant contract revenue and reviewed them to obtain an understanding of the key terms of the contracts and the contract sum;

• Reviewed management's conclusion that such contracts fulfils over-time recognition criteria in accordance with SFRS(I) 15 and the choice of method in measuring the progress;

• Assessed the design and implementation of the Group's internal controls over the accuracy of allocation of actual costs to the respective contracts;

• Assessed the completeness of the total contract costs estimated by management, taking into account the actual costs incurred, estimation of costs to complete, historical accuracy of past estimates in respect of those contracts;

• Discussed with management on potential significant costs overruns which may result in provision for onerous contracts; and

• Recalculated management's computation of the progress, and assessed reasonableness against other measurement of progress.

Based on the results of above procedures, we considered that the management judgement in revenue recognition policy for these contracts and in estimating the progress of the completion of performance obligation using input method to be reasonable.

We have also considered the disclosures of the sensitivity of the estimation uncertainty in the financial statements to be appropriate.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED (Continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but did not include in the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DARCO WATER TECHNOLOGIES LIMITED (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationship and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current year and is therefore the key audit matter. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Kow Wei-Jue Duncan.

Crowe Horwath First Trust LLP
Public Accountants and
Chartered Accountants
Singapore

3 June 2020

DARCO WATER TECHNOLOGIES LIMITED
(Incorporated in Singapore)
AND SUBSIDIARIES

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
(Amounts in thousands of Singapore dollars ("$'000"))

	Note	Group		Company	
		2019	2018	2019	2018
		$'000	$'000	$'000	$'000
ASSETS					
Non-current assets					
Property, plant and equipment	3	7,630	5,176	-	-
Right-of-use assets	4	715	-	-	-
Intangible assets	5	3,593	5,666	-	-
Investment in subsidiaries	6	-	-	19,739	14,645
Deferred tax assets	7	653	114	-	-
Other receivables	9	-	613	-	-
		12,591	11,569	19,739	14,645
Current assets					
Inventories	8	6,186	2,997	-	-
Trade and other receivables	9	62,507	68,971	15,487	15,060
Income tax recoverable		143	365	-	-
Cash and bank balances	10	27,420	27,925	6,341	13,577
		96,256	100,258	21,828	28,637
TOTAL ASSETS		108,847	111,827	41,567	43,282
LIABILITIES					
Current liabilities					
Trade and other payables	11	52,592	47,443	1,411	1,985
Borrowings	12	10,940	8,284	5,349	4,000
Lease liabilities	13	323	-	-	-
Derivative financial instrument	14	3	-	-	-
Income tax payable		264	450	-	-
		64,122	56,177	6,760	5,985
Non-current liabilities					
Borrowings	12	1,310	917	-	-
Lease liabilities	13	242	-	-	-
Deferred tax liabilities	7	28	581	-	-
		1,580	1,498	-	-
TOTAL LIABILITIES		65,702	57,675	6,760	5,985
NET ASSETS		43,145	54,152	34,807	37,297

DARCO WATER TECHNOLOGIES LIMITED
(Incorporated in Singapore)
AND SUBSIDIARIES

STATEMENTS OF FINANCIAL POSITION (Continued)
AS AT 31 DECEMBER 2019
(Amounts in thousands of Singapore dollars ("$'000"))

	Note	Group		Company	
		2019	2018	2019	2018
		$'000	$'000	$'000	$'000
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	15	76,766	76,766	76,766	76,766
Other reserves	16(a)	(3,395)	(3,261)	-	-
Accumulated losses	16(b)	(33,487)	(24,658)	(41,959)	(39,469)
		39,884	48,847	34,807	37,297
Non-controlling interests	6(g)(ii)	3,261	5,305	-	-
TOTAL EQUITY		43,145	54,152	34,807	37,297

The accompanying notes are an integral part of the financial statements.

DARCO WATER TECHNOLOGIES LIMITED
(Incorporated in Singapore)
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019
(Amounts in thousands of Singapore dollars ("$'000"))

	Note	2019 $'000	2018 $'000
Revenue	17	74,801	83,832
Cost of sales		(64,802)	(69,874)
Gross profit		9,999	13,958
Other income	18	451	679
Distribution expenses		(1,733)	(2,147)
Administrative expenses		(16,294)	(13,117)
Impairment loss on financial assets	21	(3,771)	(506)
Finance costs	19	(550)	(585)
Loss before income tax	21	(11,898)	(1,718)
Income tax credit / (expense)	22	417	(92)
Loss for the financial year		(11,481)	(1,810)
Other comprehensive loss			
<u>Items that may be reclassified subsequently to profit or loss</u>			
Currency translation differences arising from consolidation		(442)	(812)
Other comprehensive loss, net of tax		(442)	(812)
Total comprehensive loss for the financial year		(11,923)	(2,622)
Loss attributable to:			
Equity holders of the Company		(8,829)	(1,441)
Non-controlling interests		(2,652)	(369)
		(11,481)	(1,810)
Total comprehensive loss attributable to:			
Equity holders of the Company		(9,200)	(2,101)
Non-controlling interests		(2,723)	(521)
		(11,923)	(2,622)
Loss per share attributable to equity holders of the Company (cents)	23		
Basic		(9.41)	(1.67)
Diluted		(9.41)	(1.67)

The accompanying notes are an integral part of the financial statements.

DARCO WATER TECHNOLOGIES LIMITED
(Incorporated in Singapore)
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019
(Amounts in thousands of Singapore dollars ("$'000"))

	Attributable to equity holders of the Company					
	Share capital	Other reserves	Accumulated losses	Total	Non-controlling	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1.1.2019	76,766	(3,261)	(24,658)	48,847	5,305	54,152
Loss for the financial year	-	-	(8,829)	(8,829)	(2,652)	(11,481)
Other comprehensive loss for the financial year, net of tax						
- Currency translation differences arising from consolidation	-	(371)	-	(371)	(71)	(442)
Total comprehensive loss for the financial year	-	(371)	(8,829)	(9,200)	(2,723)	(11,923)
Change in ownership interests in subsidiaries						
Partial disposal of a subsidiary without a change in control (Note 6(f))	-	237	-	237	763	1,000
Acquisition of subsidiaries (Note 6(b))	-	-	-	-	(84)	(84)
Balance at 31.12.2019	76,766	(3,395)	(33,487)	39,884	3,261	43,145

DARCO WATER TECHNOLOGIES LIMITED
(Incorporated in Singapore)
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019
(Amounts in thousands of Singapore dollars ("$'000"))

	Attributable to equity holders of the Company					
	Share capital	Other reserves	Accumulated losses	Total	Non-controlling	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1.1.2018	54,274	(3,312)	(23,109)	27,853	8,189	36,042
Loss for the financial year	-	-	(1,441)	(1,441)	(369)	(1,810)
Other comprehensive loss for the financial year, net of tax						
- Currency translation differences arising from consolidation	-	(660)	-	(660)	(152)	(812)
Total comprehensive loss for the financial year	-	(660)	(1,441)	(2,101)	(521)	(2,622)
Contributions by and distribution to owners						
Issuance of shares, net (Note 15)	22,492	-	-	22,492	-	22,492
Transfer to statutory reserve (Note 16(a))	-	108	(108)	-	-	-
Total contributions by and distribution to owners	22,492	108	(108)	22,492	-	22,492
Change in ownership interests in subsidiaries						
Acquisition of non-controlling interests without a change in control	-	603	-	603	(2,363)	(1,760)
Balance at 31.12.2018	76,766	(3,261)	(24,658)	48,847	5,305	54,152

The accompanying notes are an integral part of the financial statements.

DARCO WATER TECHNOLOGIES LIMITED
(Incorporated in Singapore)
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019
(Amounts in thousands of Singapore dollars ("$'000"))

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Loss before income tax		(11,898)	(1,718)
Adjustments:			
Amortisation of intangible assets	21	1,669	1,752
Depreciation of property, plant and equipment	21	650	754
Depreciation of right-of-use assets	21	320	-
Fair value loss on derivatives	21	3	-
Gain on disposal of property, plant and equipment	21	(6)	(3)
Impairment loss on intangible assets	21	2,920	-
Property, plant and equipment written off	21	6	6
Inventories written off	21	78	148
Impairment loss on financial assets	21	3,771	506
Reversal of payables	18	-	(128)
Interest expenses	19	550	585
Interest income	18	(151)	(90)
Exchange differences		1,611	25
Operating (loss) / profit before working capital changes		(477)	1,837
Inventories		(3,267)	(1,089)
Contract assets / (liabilities)		17,969	(4,597)
Trade and other receivables		(16,602)	(3,900)
Trade and other payables		2,660	3,778
Placement of fixed deposits and bank balances pledged	10	(1,369)	(2,009)
Cash used in operations		(1,086)	(5,980)
Income taxes paid		(374)	(946)
Net cash used in operating activities		(1,460)	(6,926)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	6(b)	(1,674)	-
Placement of fixed deposits with tenure more than 3 months		(114)	-
Purchase of property, plant and equipment	A	(2,032)	(454)
Proceeds from disposal of property, plant and equipment		28	3
Interest received		151	90
Net cash used in investing activities		(3,641)	(361)

DARCO WATER TECHNOLOGIES LIMITED
(Incorporated in Singapore)
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019
(Amounts in thousands of Singapore dollars (“$’000”))

	Note	2019 $’000	2018 $’000
Cash flows from financing activities			
Proceeds from issuance of new shares, by way of cash	15	-	16,148
Share issuance cost	15	-	(260)
Partial disposal of a subsidiary without a change in control	6(f)	1,000	-
Proceeds from borrowings		5,624	3,581
Repayment of borrowings		(2,911)	(4,285)
Principal repayment of lease liabilities (2018: finance lease obligations)		(319)	(43)
Interest paid		(562)	(375)
Net cash from financing activities		2,832	14,766
Net (decrease) / increase in cash and cash equivalents		(2,269)	7,479
Cash and cash equivalents at beginning of financial year		22,673	15,379
Effect of exchange rate changes on cash and cash equivalents		(225)	(185)
Cash and cash equivalents at end of financial year	10	20,179	22,673

Note A

For the purpose of the consolidated statement of cash flows, the Group’s additions to property, plant and equipment during the financial year comprised of:

	2019 $’000	2018 $’000
Property, plant and equipment purchased during the financial year (Note 3)	2,322	551
Less:		
Deposit paid in previous financial year (Note 9(ii))	(290)	-
Finance lease obligations	-	(97)
Cash payment to acquire property, plant and equipment	2,032	454

The accompanying notes are an integral part of the financial statements.

DARCO WATER TECHNOLOGIES LIMITED
(Incorporated in Singapore)
AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019
(Amounts in thousands of Singapore dollars ("$'000"))

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. GENERAL INFORMATION

Darco Water Technologies Limited (the "Company") is a limited liability company incorporated and domiciled in Singapore and is listed on the Singapore Exchange Securities Trading Limited ("SGX-ST"). The address of the Company's registered office and its principal place of business is located at Harvest @ Woodlands, 280 Woodlands Industrial Park E5, #09-36, Singapore 757322.

The principal activities of the Company are those of investment holding and acting as a corporate manager and adviser and administrative centre to support business of the Company's subsidiaries. The principal activities of the subsidiaries are disclosed in Note 6.

The financial statements for the financial year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 3 June 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below and are drawn up in accordance with the Singapore Financial Reporting Standards (International) ("SFRS(I)"). The financial statements are presented in Singapore dollars ("$") and all values are recorded to nearest thousand ($'000) as indicated.

The preparation of the financial statements in conformity with SFRS(I)s requires management to exercise its judgements in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements and areas involving a higher degree of judgement or complexity, are disclosed in this Note.

Adoption of new and revised standards

On 1 January 2019, the Group adopted the new or amended SFRS(I) and Interpretations of SFRS(I) ("SFRS(I) INT") that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective SFRS(I) and SFRS(I) INT. The adoption of these new or amended SFRS(I) and SFRS(I) INT did not result in substantial changes to the Group's and Company's accounting policies and had no material effect on the amounts reported for the current or prior financial years, except as disclosed below:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of new and revised standards (Continued)

Adoption of SFRS(I) 16 *Leases*

This new standard on leases supersedes the previous standard (SFRS(I) 1-17) and interpretations and brings in a new definition of a lease that will be used to identify whether a contract is, or contains, a lease. For lessees, SFRS(I) 16 reforms lessee accounting by introducing a single model similar to the existing finance lease model. Specifically, lessees are required to recognise all leases on their statements of financial position to reflect their rights to use leased assets and the associated obligations for lease payments, with limited exemptions. However, lessor accounting, with the distinction between operating and finance leases, remains largely unchanged. SFRS(I) 16 is effective for annual reporting periods beginning on or after 1 January 2019, and the Group adopted SFRS(I) 16 retrospectively with any cumulative effect of initially applying the standard as an adjustment to the opening retained earnings at the date of initial application, 1 January 2019. Under this approach, comparatives are not restated.

The Group, as lessee, has leases previously classified under operating leases. Lease liabilities at 1 January 2019 are measured at present value of remaining lease payments discounted using incremental borrowing rate on that date. For all such leases, the Group elect to measure the Right-of-Use ("ROU") assets at amounts equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

<u>Practical expedients applied</u>

As allowed by SFRS(I) 16, the Group applies definition of leases under SFRS(I) 16 only to contracts entered on or after 1 January 2019 to determine whether or not the contracts contain a lease. For contracts determined to be a lease as at 31 December 2018 using SFRS(I) 1-17 and SFRS(I) INT 4, the Group applied transition requirements in SFRS(I) 16 as described above.

In addition, the Group also elect to apply the following practical expedients to leases previously classified as operating leases, and hence, the Group:

- did not recognise lease liabilities and ROU assets to leases with a lease terms ended during the current financial year or for leases of low value assets
- determined lease term on 1 January 2019 using hindsight of the actual extension or termination options exercised
- excluded initial direct costs from the measurement of ROU assets at 1 January 2019

The Group has performed impairment review for the ROU assets on 1 January 2019 and has concluded that there is no indication that the ROU assets are impaired.

The following table explains the differences between the operating lease commitments previously disclosed in the financial statements as at 31 December 2018 and the lease liabilities recognised in the statements of financial position as at 1 January 2019:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of new and revised standards (Continued)

Adoption of SFRS(I) 16 *Leases (Continued)*

	Group
	$'000
Operating lease commitments as at 31 December 2018, as previously disclosed	306
Add: Finance lease obligations recognised as at 31 December 2018	102
Add: Operating lease commitments previously not disclosed	290
Less: Short-term lease recognised as expense	(70)
Less: Effect of discounting at weighted average incremental borrowing rate at 1 January 2019	(9)
Lease liabilities as at 1 January 2019	619

The weighted average incremental borrowing rate applied to the lease liabilities recognised in the statements of financial positions on 1 January 2019 ranged from 3.28% to 5.25% per annum.

Standards issued but not yet effective

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to SFRS(I) 3: *Definition of a Business*	1 January 2020
Amendments to SFRS(I) 1-1 and SFRS(I) 1-8: *Definition of Material*	1 January 2020
Amendments to SFRS(I) 9, SFRS(I) 1-39 and SFRS(I) 7: *Interest Rate Benchmark Reform*	1 January 2020
SFRS(I) 17 *Insurance Contracts*	1 January 2021
Amendments to SFRS(I) 10 Consolidated Financial Statements and SFRS(I) 1-28 Investments in Associates and Joint Ventures: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	To be determined

The directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Group accounting

(i) Subsidiaries

(a) Basis of consolidation

Subsidiaries are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanied by a shareholding giving rise to a majority of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

(b) Acquisition of businesses

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with SFRS(I)1-39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

For non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, the Group elects on an acquisition-by-acquisition basis whether to recognise them either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, at the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Group accounting (Continued)

(i) Subsidiaries (Continued)

(b) Acquisition of businesses (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

(c) Disposals of subsidiaries or businesses

The assets and liabilities of the subsidiary, including any goodwill, are derecognised when a change in the Company's ownership interest in a subsidiary result in a loss of control over the subsidiary. Amounts recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific Standard.

Any retained interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained investment at the date when control is lost and its fair value is recognised in profit or loss. Subsequently, the retained interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(ii) Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owner of the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with owners of the Group. Any difference between the change in the carrying amounts of the non-controlling interest and the fair value of the consideration paid or received is recognised in a separate reserve within equity attributable to the owners of the Company.

Investment in subsidiaries

Investments in subsidiaries are carried at cost less accumulated impairment losses in the Company's statement of financial position. On disposal of investments in subsidiaries, the difference between disposal proceeds and the carrying amounts of the investments is recognised in profit or loss.

Currency translation

(i) Functional and presentation currency

The individual financial statements of each entity are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Singapore dollars ("$"), which is also the functional currency of the Company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Currency translation (Continued)

(ii) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity in the consolidated financial statements. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

(iii) Translation of the Group's financial statements

The assets and liabilities of foreign operations are translated into Singapore dollars at the rate of exchange ruling at the reporting date and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss.

Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of property, plant and equipment including subsequent expenditure is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance expenses are recognised in profit or loss when incurred.

After initial recognition, property, plant and equipment except for freehold lands are stated at cost less accumulated depreciation and any accumulated impairment losses.

Construction in progress includes all cost of construction and other direct costs. Construction in progress is reclassified to the appropriate category of property, plant and equipment when complete and ready to use.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Freehold lands and construction in progress are not depreciated. All other items of property, plant and equipment are depreciated using the straight-line method to write-off the cost over their estimated useful lives as follows:

	Useful lives (Years)
Freehold buildings	50
Leasehold lands and buildings	30 to 50
Renovations	5
Motor vehicles	5
Plant and equipment	3 to 10

The estimated useful life and depreciation method are reviewed, and adjusted as appropriate, at each reporting date to ensure that the amount, method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment. Fully depreciated assets are retained in the financial statements until they are no longer in use.

The carrying amount of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on retirement or disposal is determined as the difference between any sales proceeds and the carrying amounts of the asset and is recognised in the profit or loss within "Other income / (expenses)".

Intangible assets

(i) Goodwill on acquisitions

Goodwill on acquisition of subsidiaries or businesses represents the excess of (i) the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquire and the acquisition-date fair value of any previously-held equity interest in the acquiree over (ii) the fair value of the net identifiable assets acquired net of the fair values of the liabilities and any contingent liabilities assumed.

Goodwill on subsidiaries is recognised separately as intangible assets and carried at cost less accumulated impairment losses.

Gains and losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the entity sold. Certain portion of goodwill arose from a change in parent's ownership interests in a subsidiary (after control is obtained) before July 2009. The revised FRS 27 which was issued on 1 July 2009 did not require retrospective adjustment be made on goodwill that was recognised prior to 1 July 2009 and allowed the goodwill be stated at carrying value as of 1 July 2009.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those units.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

(i) Goodwill on acquisitions (Continued)

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group if cash generating units) to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment loss recognised for goodwill is not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

(ii) Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost, which includes the purchase price and other directly attributable cost of preparing the asset for its intended use. The cost of intangible assets acquired in a business combination is their fair values at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and are recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

(ii) Other intangible assets (Continued)

(a) Trade name and trademarks

Trade name and trademarks are measured at fair value less accumulated amortisation and accumulated impairment losses. The costs are amortised to profit or loss using the straight-line method over the estimated useful lives of 7 years.

(b) Patented technologies and license

Patented technologies are measured at fair value less accumulated amortisation and accumulated impairment losses. The costs are amortised to profit or loss using the straight-line method over the estimated useful lives of 5 years.

(c) Computer software and others

Computer software and others are measured at fair value less accumulated amortisation and accumulated impairment losses. The costs are amortised to profit or loss using the straight-line method over the estimated useful lives of 3 to 5 years.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent on those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecasts calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth years.

Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in the profit and loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

Financial assets and liabilities

(i) Initial recognition and measurement

Trade receivables are initially recognised when they are originated. Other financial assets and financial liabilities are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

Trade receivables without financing component is initially measured at the transaction price in accordance with SFRS(I) 15. Other financial assets or financial liabilities are initially recognised at fair value plus, in the case of financial assets or liabilities not at fair value through profit or loss, directly attributable transaction costs.

(ii) Classification and subsequent measurement

Financial assets

Financial assets are classified and subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, at the following categories:

- Amortised costs
- Fair value through Other Comprehensive Income (FVOCI) – Debt investments
- FVOCI – Equity investments
- Fair value through profit or loss (FVPL)

Financial assets are not reclassified after initial recognition unless the Group changes its business model for managing financial assets, in which case such reclassification will be applied prospectively from the reclassification date.

Financial assets at amortised costs

Unless designated at FVPL, financial assets are measured at amortised costs if:

- It is held within a business model with an objective to hold the assets to collect contractual cash flows; and
- Its contractual cash flows comprise of solely principal and interest on the principal amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities (Continued)

(ii) Classification and subsequent measurement (Continued)

Financial assets (Continued)

Financial assets at amortised costs (Continued)

These assets, mainly trade and other receivables which (exclude prepayments, advances to suppliers and GST / VAT receivables), contract assets, cash and cash equivalents, are subsequently measured at amortised costs using the effective interest rate method, which is reduced by impairment losses. Interest income, foreign exchange differences, and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI

Unless designated at FVPL, a debt investment is measured at FVOCI if:

- It is held within a business model with objectives of both collecting contractual cash flows and selling financial assets; and

- Its contractual cash flows comprise of solely principal and interest on the principal amount outstanding.

These assets are subsequently measured at fair value. Interest income calculated on effective interest rate method, foreign exchange differences and impairment are recognised in profit or loss. Other net gains and losses (including changes in fair value) are recognised in OCI. The cumulative amounts in OCI are reclassified to profit or loss upon derecognition.

Equity investments at FVOCI

Unless held-for-trading, the Group may irrevocably elect on initial recognition, on an investment-by-investment basis, to present subsequent changes of fair value of the equity investments in OCI.

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses (including changes in fair value) are recognised in OCI which will never be reclassified to profit or loss.

Financial assets at FVPL

All financial assets not at amortised cost or FVOCI as described above are measured at fair value through profit or loss. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI to be measured at FVPL, if doing so eliminates or significantly reduce accounting mismatch that would otherwise arise.

Financial assets held for trading or are managed and whose performance is evaluated on a fair value basis would be mandatorily measured at FVPL.

These assets are subsequently measured at fair value. Net gains or losses, including any interest income or dividend income are recognised in profit or loss.

As at the reporting date, the Group does not have other categories of financial assets other than financial assets at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities (Continued)

(ii) Classification and subsequent measurement (Continued)

Financial liabilities

Financial liabilities are subsequently measured at amortised costs unless it is held for trading (including derivative liabilities), or designated as financial liabilities at FVPL on initial recognition to significantly reduce accounting mismatch or when a group of financial liabilities are managed whose performance is evaluated on a fair value basis.

Financial liabilities at amortised costs are subsequently measured at amortised costs using the effective interest rate method. Interest expense and foreign exchange differences are recognised in profit or loss. These financial liabilities mainly comprise trade and other payables (excludes advances and provision for unutilised leave), contract liabilities and borrowings.

Financial liabilities at FVPL are measured at fair value with net gains and losses (including interest expense) recognised in profit or loss. Directly attributable transaction costs are recognised in profit or loss as incurred.

(iii) Derecognition

Financial assets

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial assets. On derecognition of a financial asset in its entirety, the difference between the carrying amount measured at the derecognition date and the sum of the consideration received is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of the assets within the period generally established by regulation or convention in the marketplace concerned.

Financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires. The Group also derecognise a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount of the financial liabilities extinguished, or transferred and the consideration paid (including non-cash transferred or liabilities assumed) is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities (Continued)

(iv) Offsetting

Financial assets and liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Impairment of financial assets

The Group applies impairment model in SFRS(I) 9 to measure the Expected Credit Losses ("ECL") of the following categories of assets:

- Financial assets at amortised costs (including trade and other receivables and cash and cash equivalents)
- Contract assets (determined in accordance with SFRS(I) 15)
- Debt investments at FVOCI
- Intragroup financial guarantee contracts

As at the reporting date, the Group does not have other categories of financial assets except for financial assets at amortised costs.

ECLs are probability-weighted estimates of credit losses, which are measured at the present value of all cash shortfalls (difference between the cash flows due to the Group in accordance with the contracts and the cash flows that the Group expects to receive), discounted at effective interest rate of the financial asset. The expected cash flows include cash flows from the sale of collaterals held, if any, or other credit enhancements that are integral to the contractual terms.

Simplified approach

The Group applies simplified approach to all trade receivables and contract assets. Impairment loss allowance is measured at life time ECL, which represents ECLs that result from all possible default events over the expected life of a financial instrument ('Life-time ECL').

The Group have established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to those customers and the economic environment as well as uses qualitative and quantitative information like geographical location, profile of customers and historical repayment trends to group debtors with similar characteristics for purposes of ECL assessment by using probability of default from external rating agencies and historical loss rates, where applicable.

General approach

The Group applies general approach on all other financial instruments and financial guarantee contracts, and recognise a 12-month ECL on initial recognition. 12-months ECL are ECLs that result from possible default events within 12 months after the reporting date or up to the expected life of the instrument, if shorter.

Impairment loss allowance or reversals are recognised in profit or loss. Loss allowance on financial assets at amortised cost and contract assets are deducted from the gross carrying amount of those asset. Loss allowance on debt investments at FVOCI are recognised in OCI, and does not reduce the carrying amount of the financial assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Significant increase in credit risk (Stage 2)

For credit exposures for which there has been a significant increase in credit risk since initial recognition, impairment loss allowance is measured at life-time ECL. When a financial asset is determined to have a low credit risk at reporting date, the Group assumes that there has been no significant increase in credit risk since initial recognition. For other cases, the Group uses reasonable and supportable forward-looking information available without undue cost or effort to determine, at each reporting date, whether there is significant increase in credit risk since initial recognition. In assessing whether there has been significant increase in credit risks, the Group takes into account factors such as:

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the debtor's ability to meet its debt obligations
- actual or expected significant adverse change in the regulatory, economic, or technological environment that are expected to cause a significant change in the debtor's ability to meet its debt obligations
- an actual or expected significant change in the operating results of the debtors

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

If credit risk has not increased significantly since initial recognition or if the credit quality improves such that there is no longer significant increase in credit risk since initial recognition, loss allowance is measured at 12-month ECL.

Definition of default

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligation in full, without recourse by the Group; or
- The financial asset is more than 90 days past due, unless otherwise indicated in credit risk note (Note 28(iii)).

The Group considers a contract asset to be in default when the customer is unlikely to pay the contractual obligations to the Group in full without recourse by the Group.

Credit-impaired (Stage 3)

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Write-off policy

The Group write off the gross carrying amount of a financial assets to the extent that there is no realistic prospect of recovery, for example when the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the Group.

Derivative financial instruments

A derivative financial instrument is initially recognised at its fair value on the date the contract is entered onto and is subsequently carried at its fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates each hedge as either (a) fair value hedge; (b) cash flow hedge; or (c) net investment hedge. As at reporting date, the Group has only cash flow hedge.

Fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognised in profit or loss when the changes arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Raw materials and trading goods comprise of all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. These costs are assigned on a weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to be incurred for selling and distribution.

Where necessary, allowance is provided for damage, obsolete and slow-moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Provisions

A provision is recognised when the Group has a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. Where the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provision for onerous contracts on uncompleted contracts is recognised immediately in profit or loss when it is determinable.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial guarantees

The Company has issued corporate guarantees to banks for bank borrowings of its subsidiaries. These guarantees are financial guarantee contracts as they require the Company to reimburse the banks if the subsidiaries fail to make principal or interest payments when due in accordance with the terms of their borrowings.

Financial guarantee contracts are initially recognised as a liability at their fair values, adjusted for transaction costs directly attributable to the issuance of the guarantees.

Financial guarantee contracts are initially measured at fair value plus transaction costs and subsequently measured at the higher of:

(a) premium received on initial recognition less the cumulative amount of income recognised in accordance with the principles of SFRS(I) 15; and

(b) the amount of expected loss computed using the impairment methodology under SFRS(I) 9.

Borrowings

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the reporting date, in which case they are presented as non-current liabilities.

Borrowings are initially recorded at fair value, net of transaction costs and subsequently carried for at amortised costs using the effective interest method.

Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings which are due to be settled within twelve months after the reporting date are included in the current borrowings in the statement of financial position even though the original term was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue.

Leases

The Group assess whether a contract is or contains a lease, at inception of the contract. A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Reassessment is only required when the terms and conditions of the contract are changed.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

(i) As lessee (SFRS(I) 16, applicable on or after 1 January 2019)

At the lease commencement date, the Group recognises a Right-of-Use ("ROU") asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases and low-value leases as described below.

ROU asset

ROU assets are initially measured at cost, which comprise initial amount of lease liability, any lease payment made at or before commencement date, plus initial direct costs incurred, less lease incentives received. Initial direct costs are costs that would not have been incurred if the lease had not been obtained.

Whenever the Group incurs obligations for costs to dismantle and remove a leased asset, restore the site or the underlying asset to the condition required by the terms and conditions of the lease contract, a provision is recognised and measured under SFRS(I) 1-37; and included in the carrying amount of the ROU assets to the extent that the costs relate to a ROU asset.

ROU assets are subsequently measured at cost less accumulated depreciation and impairment losses. ROU assets are depreciated from commencement date to the earlier of end of lease terms and useful life of the ROU assets. In addition, the ROU assets are also adjusted for certain remeasurement of lease liability.

ROU assets are presented as a separate line item on the statement of financial position.

Lease liability

Lease liability is initially measured at the present value of lease payments discounted using interest rate implicit in the lease, or if that rate cannot be readily determined, the lessee's incremental borrowing rate. Generally, the Group uses the incremental borrowing rate as the discount rate, which is estimated by reference to interest rates from various external financing sources for similar terms such as lease terms, type of assets leases and economic environment.

The following lease payments are included in the measurement of lease liability:

- Fixed payment (including in-substance fixed payments), less any lease incentives receivables;
- Variable lease payment that are based on an index or rate, initially measured using the index or rate as at the commencement date;
- Amount expected to be payable under residual value guarantees;
- The exercise price of a purchase option if is reasonably certain to exercise the option; and
- Payment of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease liability is measured at amortised cost using effective interest method. Remeasurement of lease liability (and corresponding adjustment to ROU asset, or to profit or loss when the ROU asset has been reduced to zero) is required when there is:

- a change in future lease payments arising from changes in an index or rate, in which case the initial discount rate is used;
- a change in the Group's assessment of whether it will exercise an extension or termination option, in which case a revised discount rate is used; or
- modification in the scope or the consideration of the lease that was not part of the original term and not accounted for as separate lease, in which case a revised discount rate at effective date of modification is used.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

(i) As lessee (SFRS(I) 16, applicable on or after 1 January 2019) (Continued)

Lease liability (Continued)

The Group presents the lease liabilities are presented as a separate line item on the statement of financial position.

Exemption / exclusion

The following leases/ lease payments are not included in lease liabilities and ROU asset:

- The Group has elected not to recognise ROU asset and lease liabilities for short term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For such leases, the Group recognises the lease payments in profit or loss as an operating expense on a straight-line basis over the lease term.

(ii) As lessee (SFRS(I) 1-17, applicable prior to 1 January 2019)

Finance leases, which transfers to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred. Capitalised lease assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased item are classified as operating leases. Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Share capital and issuance expenses

Proceeds from issuance of ordinary shares are classified as share capital in equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against share capital.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customers, at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Unless otherwise mentioned, the Group concludes that it is acting as a principal in the provision of goods or services in its contracts with customers.

(a) Sale of goods

Revenue from sale of goods is recognised upon transfer of control to the customers usually at the point in time when the goods have been delivered to customers. The Group normally invoices the customers upon delivery of the goods with 30 to 120 days credit term.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

(b) Revenue from contract revenue - Engineered Environmental Systems

Revenue from contract revenue is recognised over time as it creates or enhances assets controlled by the customers. The progress of completion is measured by reference of contract costs incurred in proportion to the total estimated contract costs for each contract. Management considers that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under SFRS(I) 15. Costs that are not related to the contracts or do not contribute to the progress of satisfying the performance obligation are excluded when calculating the progress, and are expensed as incurred.

Progress billing to customers are based on milestone/ payments schedule set out in the contracts. When the value of revenue recognised exceeds payments received from the customers, the Group recognises the difference as a contract asset. A contract liability is recognised in the reverse situation.

The incremental costs of obtaining the contract, mainly sales commission, is capitalised if the Group expects to recover those costs. The tender costs are expensed out as incurred. The Group uses the practical expedient to recognise incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset would have been one year or less. For costs to fulfil the contracts not within the scope of other SFRS(I), the Group capitalise the costs as contract costs assets only if (a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify; (b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (c) the costs are expected to be recovered. Costs that does not fulfil the above criteria is expensed immediately as incurred.

Capitalised contract costs are amortised on a systematic basis that is consistent with the revenue recognised. An impairment loss is recognised in profit or loss to the extent that the carrying amount of capitalised contract costs exceeds the expected remaining consideration (net of direct costs to be incurred).

Allowance is made where necessary to account for onerous contracts. To determine the total costs, the Group monitors and reviews constantly the progress of contracts taking into consideration all inputs from both internal project team and external customers. The review includes evaluating any potential risks and factors which may affect the timely completion of the contracts. The review also includes review of total budgeted costs whereby both actual costs incurred and future costs to complete are critically examined.

(c) Revenue from rendering of services - Water Management Services

Revenue from rendering of servicing and maintenance support services are recognised over time on a straight-line basis for contracts with fixed rate per month as these represent series of repetitive services. When the service contracts provide fixed rate per service or visit, the revenue is recognised on invoiced value per month as it represents an amount that corresponds directly with the value to the customer of the Group's performance completed to date, as allowed by practical expedient in SFRS(I) 15. Otherwise, revenue is recognised at point in time when the customer obtains control of the assets or services.

Other income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all terms and conditions relating to the grants have been complied with. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the statement of financial position and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

When the grant relates to an expense item, it is recognised in profit or loss over the period necessary to match them on a systematic basis to the costs that it is intended to compensate.

Dividends

Interim dividends are recorded in the financial year in which they are declared payable. Final dividends are recorded in the financial year in which the dividends are approved by the shareholders.

Employees' benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Retirement benefits

The Group and the Company participate in the national schemes as defined by the laws of the countries in which it has operations.

Singapore

The Company and certain subsidiaries make contribution to the Central Provident Fund ("CPF") Scheme in Singapore, a defined contribution pension scheme.

Foreign subsidiaries

The subsidiaries, incorporated and operating in Malaysia, the People's Republic of China, Philippines and Taiwan, are required to provide certain retirement plan contribution to their employees under the existing regulations. Contribution are provided at the rates stipulated by the regulations in the countries where the subsidiaries operate.

Obligations for contributions to defined contribution retirement plans are recognised as an expense in the period in which the related service is performed.

(iii) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability as a result of services rendered by employees up to the reporting date.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

All borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group and the Company incurred in connection with the borrowing of funds.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income taxes for current and prior periods are recognised at the amount expected to be paid to or recovered from the tax authorities, using tax rates and tax laws that have been substantively enacted by the reporting date in the countries where the Group operates and generates taxable income. Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow deferred tax assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and the Company if that person:

- (i) Has control or joint control over the Company;
- (ii) Has significant influence over the Company; or
- (iii) Is a member of the key management personnel of the Group or the Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies:

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) Both entities are joint ventures of the same third party;
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
- (vi) The entity is controlled or jointly controlled by a person identified in (a);
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits with financial institutions, and short-term, highly liquid investments readily convertible to known amounts of cash which have an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents are presented net of bank overdraft and pledged fixed deposits and bank balances.

Contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the statement of financial position of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn resources and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, which in the case is the Chief Executive Officer of the Group, to make decision about resources to be allocated and to assess performance of the operating segments.

Critical accounting estimates, assumptions and judgement

Estimates, assumptions and judgement are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Contract revenue – measuring progress

The Group recognise revenue from contract revenue over time using input method. The progress is measured by reference to the contract costs incurred to date to the estimated total costs for the contract. Significant assumptions are required to estimate the total contract costs that will affect the measure of progress towards complete satisfaction of the performance obligations; and to estimate the variable consideration that is not constrained. In making these estimates, management relied on past experiences and the knowledge of the project engineers.

The carrying amounts of contract assets and contact liabilities arising from contract revenue as at 31 December 2019 are disclosed in Note 17(b).

If the estimated total contract costs of major contracts increase / decrease by 5% from management's estimates, the Group's revenue will decrease / increase by $3,129,000 (2018: $2,400,000).

(b) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates, assumptions and judgement (Continued)

(i) Critical accounting estimates and assumptions (Continued)

(b) Impairment of non-financial assets (Continued)

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate included in the budget.

The carrying amount of goodwill and further details of the key assumptions applied in the impairment assessment of goodwill are disclosed in Note 5.

The carrying amount of property, plant and equipment, right-of-use assets and investment in subsidiaries are disclosed in Note 3, Note 4 and Note 6 respectively.

(c) Impairment of financial assets

Impairment allowance for financial assets measured at amortised costs are applied using the ECL model, which requires assumptions of risk of default and expected loss rates. The Group uses judgement in making these assumptions and determining key inputs to the impairment calculation, taking into account the Group's past history, existing market conditions as well as forward-looking information relating to industry, market development and macroeconomic factors. Expected loss rate is based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, geographical location, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. The amount of ECL allowance, key assumptions and inputs used are disclosed in Note 28(iii).

(d) Income tax

Current tax

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. In determining the income tax liabilities of a routine tax assessment year, management estimated the amount of capital allowance and the deductibility of certain expenses at each tax jurisdiction. Where the final tax outcome is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's income tax recoverable and payable as at 31 December 2019 amounted to $143,000 and $264,000 (2018: $365,000 and $450,000) respectively.

Deferred tax - recognised

Changes in income tax laws and rates may affect recorded deferred tax assets and liabilities in the future. As at 31 December 2019, a subsidiary in The People's Republic of China which enjoys a concessionary tax rate of 15% (2018: 15%), had recognised deferred tax assets and liabilities of approximately $371,000 and Nil (2018: $58,000 and $595,000) respectively on the basis that the concessionary tax rate will still be available at the timing of reversal of the temporary differences.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates, assumptions and judgement (Continued)

(i) Critical accounting estimates and assumptions (Continued)

(d) Income tax (Continued)

Deferred tax – unrecognised

The Group and Company have not recognised deferred tax assets relating to tax losses of approximately $18,027,000 and $5,426,000 (2018: $10,379,000 and $4,074,000) respectively that are available to be carried forward. As disclosed in Note 7, these losses relate to the Company and certain subsidiaries that have a history of losses and may not be used to offset taxable income elsewhere in the Group. The Group and the Company have deductible temporary differences of approximately $681,000 and $15,000 (2018: $768,000 and Nil) respectively which are not recognised as deferred tax assets. The Company and the respective subsidiaries have neither temporary taxable differences nor any tax planning opportunities available that could support the recognition of any of these losses and deductible temporary differences as deferred tax assets. If the Group was able to recognise all unrecognised deferred tax assets, the resulting deferred tax income of approximately $3,322,000 (2018: $2,020,000) would reduce the Group's loss for the financial year.

(ii) Critical judgement in applying the entity's accounting policies

Revenue recognition on contract revenue

The Group has assessed its contracts in EE system as a single performance obligation due to the inter-dependence of services provided in these contracts.

Significant judgement is required in determining whether the performance obligations are distinct. Such considerations include the Group's assessment of whether the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customers and the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contracts.

For contracts with variable considerations (such as liquidated damages and discounts), the Group has applied judgement in determining the transaction price for the recognition of revenue. Such judgement includes assessment of the evaluation of any potential risks and factors which may affect the timely completion of the project as well as the quality of the output delivered to the customer.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold lands	Freehold buildings	Leasehold lands and buildings	Renovations	Construction in progress	Motor vehicles	Plant and equipment	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost								
As at 1.1.2018	270	917	3,108	698	194	1,194	2,708	9,089
Additions	-	-	-	3	9	151	388	551
Transfers	-	-	-	-	(47)	-	47	-
Disposals	-	-	-	-	-	(10)	(1)	(11)
Written off	-	-	-	-	-	-	(322)	(322)
Currency translation differences	1	2	(88)	(10)	1	(11)	(13)	(118)
As at 31.12.2018	271	919	3,020	691	157	1,324	2,807	9,189
As at 1.1.2019	271	919	3,020	691	157	1,324	2,807	9,189
Additions	1,300	-	-	-	875	76	71	2,322
Reclassification	-	-	-	-	(122)	-	122	-
Transfer to right-of-use assets (Note 4)	-	-	(182)	-	-	(115)	-	(297)
Acquisition of a subsidiary	-	-	-	-	1,123	-	18	1,141
Disposals	-	(16)	-	-	-	(68)	(4)	(88)
Written off	-	-	-	-	(6)	(83)	(4)	(93)
Currency translation differences	(7)	(4)	(66)	(10)	(2)	(4)	(15)	(108)
As at 31.12.2019	1,564	899	2,772	681	2,025	1,130	2,995	12,066

3. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)	Freehold lands	Freehold buildings	Leasehold lands and buildings	Renovations	Construction in progress	Motor vehicles	Plant and equipment	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Accumulated depreciation								
As at 1.1.2018	-	264	189	275	-	665	2,214	3,607
Charge for the financial year (Note 21)	-	21	221	63	-	215	234	754
Disposals	-	-	-	-	-	(10)	(1)	(11)
Written off	-	-	-	-	-	-	(316)	(316)
Currency translation differences	-	2	(10)	(1)	-	(7)	(5)	(21)
As at 31.12.2018	-	287	400	337	-	863	2,126	4,013
As at 1.1.2019	-	287	400	337	-	863	2,126	4,013
Charge for the financial year (Note 21)	-	18	118	121	-	155	238	650
Transfer to ROU assets (Note 4)	-	-	(44)	-	-	(8)	-	(52)
Acquisition of a subsidiary	-	-	-	-	-	-	7	7
Disposals	-	(16)	-	-	-	(47)	(3)	(66)
Written-off	-	-	-	-	-	(83)	(4)	(87)
Currency translation differences	-	(3)	(11)	(4)	-	(3)	(8)	(29)
As at 31.12.2019	-	286	463	454	-	877	2,356	4,436
Net carrying amount								
As at 31.12.2019	1,564	613	2,309	227	2,025	253	639	7,630
As at 31.12.2018	271	632	2,620	354	157	461	681	5,176

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. PROPERTY, PLANT AND EQUIPMENT (Continued)

Assets held under finance leases under SFRS(I) 1-17 as at 31 December 2018

During the previous financial year, the Group had acquired motor vehicles with an aggregate amount of $97,000 by means of finance lease.

The carrying amount of motor vehicles held under finance leases at 31 December 2018 was $158,000. Leased assets were pledged as security for the related finance lease liabilities (Note 12).

Assets pledged as security

The Group's freehold lands, freehold buildings and leasehold lands and buildings with an aggregate carrying amount of $4,619,000 (2018: $3,523,000) are mortgaged to the banks in Malaysia and The People's Republic of China to secure the Group's bank loans and facilities (Note 12).

The properties held by the Group as at 31 December 2019 and 31 December 2018 are as follows:

Location	Description	Gross land area (sqm)	Gross built-in area (sqm)	Remaining tenure	Use of property
Malaysia					
Lot 10645, Jalan Permata 1/6, Arab Malaysian Industrial Park, 71800 Nilai, Negeri Sembilan Darul Khusus, Malaysia	Freehold land and building	4,572	1,512	Freehold	Office, factory and warehouse
Lot 16140, No.117, Jalan Nilai 3/12, Kawasan Perindustrian Nilai 3, 71800 Nilai, Negeri Sembilan, Malaysia	Freehold land and building	669	223	Freehold	Factory
Lot No. 6546, Mukim 1, Daerah Seberang Perai Tengah, Pulau Pinang, Malaysia	Leasehold land and building	1,009	984	Ending on 30 September 2045	Office, factory and warehouse
Lot No. 6547, Mukim 1, Daerah Seberang Perai Tengah, Pulau Pinang, Malaysia	Leasehold land and building	1,009	984	Ending on 30 September 2045	Office, factory and warehouse
Lot 16681 in Mukim Setul, District Seremban, 71800 Nilai, Negeri Sembilan, Malaysia	Freehold land	5,233	-	Freehold	Office, factory and warehouse
China					
Building 20, Guanggu Witpark, Financial Harbour 1st Road, Guanggu Road, East Lake New-Tech Development Zone, Wuhan, Hubei, PRC	Leasehold land and building	63,415	1,494	Ending on 11 March 2061	4-storey office and warehouse

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. RIGHT-OF-USE ASSETS

Group	Leasehold lands	Motor vehicles	Leasehold properties	Plant and equipment	Total
	$'000	$'000	$'000	$'000	$'000
Cost					
As at 1 January 2019	-	-	-	-	-
Recognition of ROU assets on adoption of SFRS(I) 16	-	34	531	18	583
Transfer from property, plant and equipment (Note 3)	182	115	-	-	297
Additions	-	80	129	-	209
Currency translation differences	(1)	(1)	*	-	(2)
As at 31 December 2019	181	228	660	18	1,087
Accumulated depreciation and impairment loss					
As at 1 January 2019	-	-	-	-	-
Transfer from property, plant and equipment (Note 3)	44	8	-	-	52
Charge for the year	4	36	276	4	320
Currency translation differences	*	*	*	-	*
As at 31 December 2019	48	44	276	4	372
Net carrying amount					
As at 31 December 2019	133	184	384	14	715

* Amount less than $1,000.

The Group leases several assets such as leasehold lands, office premises / warehouse / hostel, plant and equipment and motor vehicles. The average remaining lease term as 1 January 2019 is 1 to 5 years except for a lease of land for 25 years which has been fully paid up front. There are no restrictions or covenants imposed by the lease contracts. The corresponding lease liabilities is disclosed in in Note 13.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. INTANGIBLE ASSETS

Group	Goodwill on consolidation	Trade name and trademarks	Patented technologies and license	Computer software and others	Total
	$'000	$'000	$'000	$'000	$'000
Cost					
Balance at 1.1.2018	924	4,468	5,171	142	10,705
Currency translation differences	-	(156)	(176)	(5)	(337)
Balance at 31.12.2018	924	4,312	4,995	137	10,368
Balance at 1.1.2019	924	4,312	4,995	137	10,368
Acquisition of a subsidiary	2,535	-	-	-	2,535
Currency translation differences	-	(112)	(130)	(4)	(246)
Balance at 31.12.2019	3,459	4,200	4,865	133	12,657
Accumulated amortisation and impairment losses					
Balance at 1.1.2018	(19)	(1,117)	(1,897)	(75)	(3,108)
Amortisation for the financial year (Note 21)	-	(634)	(1,075)	(43)	(1,752)
Currency translation differences	-	57	96	5	158
Balance at 31.12.2018	(19)	(1,694)	(2,876)	(113)	(4,702)
Balance at 1.1.2019	(19)	(1,694)	(2,876)	(113)	(4,702)
Amortisation for the financial year (Note 21)	-	(614)	(1,041)	(14)	(1,669)
Impairment loss for the financial year (Note 21)	-	(1,995)	(925)	-	(2,920)
Currency translation differences	-	103	119	5	227
Balance at 31.12.2019	(19)	(4,200)	(4,723)	(122)	(9,064)
Net carrying amount					
As at 31.12.2019	3,440	-	142	11	3,593
As at 31.12.2018	905	2,618	2,119	24	5,666

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. INTANGIBLE ASSETS (Continued)

Impairment loss

During the financial year, the Group carried out a review of the recoverable amount of its intangible assets in Engineered Environmental ("EE") Systems segment because Wuhan Kaidi Water Services Co., Ltd ("WHKD"), a major subsidiary of the Group has recorded a net loss. The Group's financial performance and financial position are mainly contributed by WHKD. Management considered WHKD as a cash-generating unit ("CGU") that generates cash flows from Engineered Environmental ("EE") Systems segment that are largely independent from other subsidiaries in the segment.

An impairment loss of $2,920,000, representing the write-down to the recoverable amount was recognised in "administrative expenses" in profit or loss for the current financial year. The recoverable amount of the CGU is determined based on its value in use with a pre-tax discount rate of 11.06%.

Amortisation

Amortisation expenses included in the profit or loss are analysed as follows:

	Group	
	2019	2018
	$'000	$'000
Administrative expenses	1,669	1,752

The carrying amount and the remaining amortisation period of the intangible assets are mainly as follows:

	Group			
	Carrying amount		Remaining amortisation period	
	2019	2018	2019	2018
	$'000	$'000	Months	Months
Trade name and trademarks	-	2,618	-	51
Patented technologies	-	1,531	-	27
Licence to use technology	142	588	9	21

Impairment testing of goodwill

Goodwill acquired through business combinations are allocated to the Group's cash-generating units ("CGUs") that are expected to benefit from that business combinations. The carrying amount of goodwill before impairment is as follows:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. INTANGIBLE ASSETS (Continued)

Impairment testing of goodwill (Continued)

	2019 $'000	2018 $'000
Indonesia [(i)]	2,535	-
Singapore [(ii)]	905	905
Malaysia [(iii)]	4	4
PRC [(iii)]	15	15
	3,459	924

[(i)] This pertains to PT Panghegar Energy Indonesia ("PEI") (Note 6(b)).
[(ii)] This pertains to PV Vacuum Engineering Pte. Ltd. ("PV Vacuum").
[(iii)] Fully impaired in the previous financial years.

PT Panghegar Energy Indonesia and its subsidiary ("PEI Group")

The recoverable amount of the CGU is determined based on value-in-use calculations.

In determining value-in-use, the Group prepares 25-year cash flows projections which are based on the following key assumptions:

	Group 2019
Conversion rate [(1)]	35%
Gross margin [(2)]	53%
Discount rate [(3)]	8%

[(1)] Conversion rate from solid waste into a specific type of fuel
[(2)] Budgeted gross margin
[(3)] Pre-tax discount rate applied to the pre-tax cash flow projections

Cash flows projection are based on the 25-years financial budgets approved by the management because revenue is calculated based on terms of the 25-years concession agreement with the regional government and terms of the fuel off-take agreement with a third party, which includes guaranteed quantities and prices over the contractual period.

Gross margin is budgeted based on the projected gross margin for the operations.

Sensitivity to changes in assumptions

The management believes that there is no reasonably possible change in the above key assumptions applied that is likely to materially cause the respective cash-generating unit carrying amount to exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. INTANGIBLE ASSETS (Continued)

Impairment testing of goodwill (Continued)

PV Vacuum Engineering Pte. Ltd. ("PV") – "EE" segment

The recoverable amount of the CGU is determined based on value-in-use calculations.

In determining value-in-use, the Group prepares 10-year cash flows projections based on the most recent financial budgets approved by the management covering a five-year period, which are based on the following key assumptions:

	Group	
	2019	2018
	%	%
Growth rate [1]		
- Municipal	-	-
- Industrial	0 to 5	0 to 5
Gross margin [2]		
- Municipal	29	33
- Industrial	48	49
Discount rate [3]	6	6

(1) Growth rate in revenue
(2) Budgeted gross margin
(3) Pre-tax discount rate applied to the pre-tax cash flow projections

Municipal projects

Revenue from municipal projects is budgeted based on secured and estimated tendered contract value of project as at reporting date, which will be completed over the next 1 - 3 years (2018: 1 - 3 years). Gross margin is budgeted based on the historical track records for the past 4 years (2018: 3 years) for those projects.

Industrial

Management expects that PV Vacuum will be able to achieve annual organic growth rate of 5% (2018: 5%) for the next 5 years for vacuum system projects from industrial customers, which is consistent with the industry growth rate forecast. In extrapolating the cash flows beyond the budget periods, the Management assumed zero growth rate. Gross margin is budgeted based on the historical track records for the past 4 years (2018: 3 years).

The discount rates used are pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs.

Sensitivity to changes in assumptions

The outcome of the tender of municipal projects are still pending as at the date of the report. However, management is confident that PV Vacuum will be able to continue to secure municipal projects having established track records with its existing projects and expects PV Vacuum to at least achieve revenue from municipal projects at the recorded level for the past 4 years (2018: 3 years). With such budget and expectation, management believes that no reasonably possible changes in any of the above key assumptions individually or in combination would cause the carrying amount of the CGU to materially exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. INVESTMENT IN SUBSIDIARIES

	Company	
	2019	2018
	$'000	$'000
Unquoted equity shares, at cost		
At beginning of the financial year	17,324	14,889
Add:		
- Acquisition of shares from non-controlling interests (Note (c))	-	1,760
- Acquisition of subsidiaries (Note (b))	2,053	-
- Additional equity interest in subsidiary (Note (e))	2,000	-
- Capital contribution by capitalising loan (Note (d) and Note (f))	1,041	675
At end of the financial year	22,418	17,324
Less: Impairment losses		
At beginning and end of the financial year	(2,679)	(2,679)
Net carrying amount	19,739	14,645

(a) Details of the subsidiaries are as follows:

Name	Principal activities	Country of incorporation and place of business	Proportion (%) of ownership interests	
			2019	2018
Held by the Company			%	%
Darco Engineering Pte. Ltd. [1]	Investment holding, design and fabrication of water treatment systems and providing consultancy services in relation to such business	Singapore	100	100
Darco Water Systems Sdn. Bhd. ("DWS") [2]	Investment holding, design and fabrication of water treatment systems and providing consultancy services in relation to such business and trading in related industrial products	Malaysia	100	100
PV Vacuum Engineering Pte. Ltd. [1]	Design and supply of environmental related equipment, centralised vacuum systems, refuse conveying system and any other engineering systems making use of vacuum technologies	Singapore	100	100
Darco Infraco Vietnam Water Pte. Ltd. [1]	Investment holding	Singapore	51 (Note (f))	100

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. INVESTMENT IN SUBSIDIARIES (Continued)

(a) Details of the subsidiaries are as follows (Continued):

Name	Principal activities	Country of incorporation and place of business	Proportion (%) of ownership interests	
			2019	2018
			%	%
Held by the Company (Continued)				
Wuhan Kaidi Water Services Co., Ltd. (2)	Provision of comprehensive and integrated engineering solutions for water purification, water supply and wastewater treatment	The People's Republic of China ("PRC")	72	72 (Note (c))
Darco Environment Vietnam Co. Ltd. (5)	Investment holding, design and fabrication of water treatment systems and providing consultancy services in relation to such business	Vietnam	100	100
PT Panghegar Energy Indonesia (6) (8)	Investment holding	Indonesia	75 (Note (b))	-
Held by subsidiaries				
Darco Environmental (Philippines) Inc. (3)	Design, installation and commissioning of treatment systems for water purification, treatment of waste water and other waste discharge for industrial use, providing services and supplying chemicals and components used in manufacturing and maintenance water treatment systems	Philippines	65	65
Shanghai Darco Engineering Co., Ltd. (4)	Design and fabrication of water treatment systems and provision of consultancy services in relation to such business	PRC	100	100
Darco Industrial Water Sdn. Bhd. (2)	Designing, installing, setting up and maintaining of industrial waste treatment plant ultra-pure system, testing of waste water and processed water, rendering of other related waste treatment plant services and trading in industrial water treatment equipment, spare parts and chemicals	Malaysia	100	100

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. INVESTMENT IN SUBSIDIARIES (Continued)

(a) Details of the subsidiaries are as follows (Continued):

Name	Principal activities	Country of incorporation and place of business	Proportion (%) of ownership interests	
			2019 %	2018 %
Held by subsidiaries (Continued)				
WWMG Environmental Sdn. Bhd. (2)	Investment holding	Malaysia	100	100
Ness Plus Trading Sdn. Bhd. (2)	Designing, fabricating and constructing pure and waste water treatment plants and trading in related industrial products	Malaysia	100	100
Grober Industrial Services Sdn. Bhd. (2)	Supplying of all kinds of industrial equipment and industrial services	Malaysia	100	100
Darco Remediation Technologies Inc. (2)	Design and fabrication of water treatment systems and providing consultancy services in relation to such business; solid waste disposal treatment and incineration; noise and vibration prevention engineering; soil pollution control engineering; environmental monitoring system	Taiwan	100	100
Puzer Asia Pte. Ltd. (1)	Trading in vacuum cleaning systems and provision of related services	Singapore	56	56
Darco Viet Water Company Limited (5)	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	Vietnam	100	100
Darco Ba Lai Water Supply Limited (5)	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	Vietnam	90	90

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. INVESTMENT IN SUBSIDIARIES (Continued)

(a) Details of the subsidiaries are as follows (Continued):

Name	Principal activities	Country of incorporation and place of business	Proportion (%) of ownership interests	
			2019	2018
			%	%
Held by subsidiaries (Continued)				
Darco Nghe An Company Limited [(5)]	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	Vietnam	90	90
Darco Ha Tinh Company Limited [(7)]	Design and fabrication of water treatment systems and providing consultancy services in relation to such business	Vietnam	90	-
PT Jabar Bersih Lestari [(6)] [(8)]	Provision of Regional Final Waste Management and Treatment Infrastructure	Indonesia	80	-

(1) Audited by Crowe Horwath First Trust LLP, Singapore.
(2) Audited by member firms of Crowe Global in the respective countries.
(3) Audited by Fernandez, Santos & Lopez, Philippines.
(4) Audited by a CPA firm in the PRC.
(5) Audited by BDO, Vietnam.
(6) Audited by Kantor Akuntan Publik, Indonesia.
(7) Newly incorporated during the financial year.
(8) Newly acquired during the financial year.

(b) Acquisition in financial year 2019

On 1 November 2019, the Company announced that on the same date, the Company had entered into a conditional sale and purchase agreement (“SPA”) with Emsus Co., Ltd. (“Emsus”) to acquire 75% of the total equity interest in the registered capital of PT Panghegar Energy Indonesia (“PEI”) for cash consideration of USD1,500,000 approximately $2,053,000.

Emsus was the owner of 6,800 shares (representing in aggregate 85% of the total number of issued and paid up share capital) in PEI, while PEI is the owner of 40,000 shares (representing in aggregate approximately 80% of the total number of issued and paid up share capital) in PT Jabar Bersih Lestari (“JBL”).

PEI is purely an investment holding company, which owns the Project Company – JBL.

JBL is an Indonesia-incorporated company that specialises in the operation of waste management facilities. JBL has entered into a cooperation agreement (the “Cooperation Agreement”) with the West Java Province Regional Government of Indonesia to provide waste management services in Bogor City, Bogor Regency and Depok City in Indonesia (the “Project”).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. INVESTMENT IN SUBSIDIARIES (Continued)

(b) Acquisition in financial year 2019 (Continued)

As of 12 December 2019, the 75% equity shares in PEI has been transferred to the Company and the Company has majority board representative. Management has determined that control has been obtained as of this date (the "Acquisition date"). Upon the Acquisition date, PEI and its 80% owned subsidiary, JBL (collectively known as "PEI Group") became subsidiaries of the Group.

The Group has elected to measure the non-controlling interest at the non-controlling interest's proportionate share of PEI Group's identifiable net assets. The provisional fair value of the identifiable assets and liabilities of PEI Group as at the acquisition date were:

	$'000
Cash and cash equivalents	109
Property, plant and equipment	1,134
Deferred tax assets	282
Trade and other receivables	262
Trade and other payables	(2,353)
Total identifiable net liabilities at carrying amount	(566)
Purchase consideration	2,053
Non-controlling interest measured at the non-controlling interest's proportionate share of PEI Group's net identifiable liabilities	(84)
Less: Total identifiable net liabilities at carrying amount	566
Goodwill arising from acquisition	2,535

* The acquisition occurred close to the end of the financial year, the fair value of assets acquired and liabilities recognised presented and the resultant goodwill is provisionally determined based on the management's best estimate of the likely values and may be subject to changes upon the completion and finalisation of the purchase price allocation exercise within the subsequent measurement period for a maximum of one year as allowed by SFRS(I) 3 *Business Combinations*.

<u>Effect of the acquisition of PEI Group</u>

	$'000
Total consideration paid in cash as at 31 December 2019 [(i)]	1,783
Less: Cash and cash equivalents of subsidiaries acquired	(109)
Net cash outflows on acquisition of subsidiaries	1,674

[(i)] The final payment of US$200,000 (equivalent to $270,000, included in other payables) is payable after fulfilment of all 'conditions subsequent' as stated in the conditional sale and purchase agreement, including satisfactory completion of the Company's business, environmental, financial, tax and legal due diligence (in the Company's sole discretion) on PEI and JBL, as announcement by the Company. The Company has the option to reverse and unwind the sale and purchase of the shares in PEI if the 'conditions subsequent' are not satisfied by their stipulated deadlines.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. INVESTMENT IN SUBSIDIARIES (Continued)

(b) Acquisition in financial year 2019 (Continued)

Effect of the acquisition of PEI Group (Continued)

PEI did not contribute any revenue or profit to the consolidated profit or loss for the current year since acquisition in December 2019 as the Project is still under development and has yet to commence commercial operation. For the same reason, there would not have been any material changes to the consolidated profit or loss had the acquisition been completed at the beginning of financial year.

(c) Financial year 2018

On 16 June 2017, the Company announced that on the same date, the Company had entered into a conditional sale and purchase agreement ("SPA") with Hong Kong Meidi Investments Holdings Co., Ltd ("HKMI") to acquire 12%of the total equity interest in the registered capital of WHKD ("Proposed Acquisition").

Pursuant to the terms and conditions of the SPA, the Proposed Acquisition was to be satisfied solely via the allotment and issuance of 3,824,891 shares in the capital of the Company at an original issue price of $0.50 per share ("Consideration Shares") to HKMI.

On 1 February 2018 and 21 March 2018, the Company announced that they had obtained the in-principle approval for the listing and quotation of the Consideration Shares on the mainboard of SGX-ST and the Proposed Acquisition had been approved by the Shareholders at the extraordinary general meeting respectively.

Accordingly, on 21 March 2018, the Company has completed the acquisition of the additional 12% equity interest in the registered capital of WHKD from HKMI for an approximately of $1,760,000 via the allotment and issuance of 3,824,891 new ordinary shares in the share capital of the Company at a fair value issue price of $0.46 per share to HKMI.

Immediately prior to the purchase, the carrying amount of the existing 40% non-controlling interest in WHKD was approximately $7,878,000. The Group recognised a decrease in non-controlling interest of $2,363,000 and an increase in equity attributable to owners of the parent of $603,000. The effect on the equity attributable to the owners of the Company during the financial year is summarised below:

	Group
	2018
	$'000
Carrying amount of non-controlling interest acquired	2,363
Share consideration paid to non-controlling interest	(1,760)
Difference directly recognised in equity (Note 16(a))	(603)

(d) In the previous financial year ended 31 December 2018, the Company capitalised outstanding loan amount of approximately $675,000 due from Darco Environment Vietnam Co., Ltd. The effective equity interest in the subsidiary remains the same.

(e) During the financial year, the Company has further subscribed for an additional 2,000,000 new ordinary shares in its wholly owned subsidiary, PV Vacuum Engineering Pte. Ltd. for an amount of $2,000,000.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. INVESTMENT IN SUBSIDIARIES (Continued)

(f) During the financial year, Darco Infraco Vietnam Water Pte. Ltd. ("DIVW") issued and allotted 2,040,815 new ordinary shares at the subscription price of $1.00 for each new ordinary share. The Company capitalised outstanding loan amount of approximately $1,041,000 due from DIVW and disposed of 49% of the equity interest in DIVW for a cash consideration of $1,000,000 without a change in the controls over DIVW.

	Group 2019 $'000
Carrying amount of non-controlling interest created	763
Cash consideration paid by non-controlling interest	(1,000)
Difference directly recognised in equity (Note 16(a))	(237)

(g) Interest in subsidiaries with non-controlling interest ("NCI")

(i) The Group has the following subsidiaries that have NCI to the Group.

Name of subsidiary	Proportion (%) of ownership interests and voting rights held by NCI	
	2019 %	2018 %
With material NCI		
Wuhan Kaidi Water Services Co., Ltd ("WHKD")	28	28
With immaterial NCI		
Darco Environmental (Philippines) Inc.	35	35
Puzer Asia Pte. Ltd.	44	44
Darco Infraco Vietnam Water Pte. Ltd.	49	-
Darco Ba Lai Water Supply Limited	10	10
Darco Nghe An Company Limited	10	10
Darco Ha Tinh Company Limited	10	-
PT Panghegar Energy Indonesia	25	-
PT Jabar Bersih Lestari	20	-

(ii) The carrying value of NCI to the Group is as follow:

	2019 $'000	2018 $'000
WHKD	2,742	5,336
Other subsidiaries with immaterial NCI	519	(31)
Total	3,261	5,305

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. INVESTMENT IN SUBSIDIARIES (Continued)

(g) Interest in subsidiaries with non-controlling interest ("NCI") (Continued)

(iii) The following summarises the financial information of WHKD, based on its respective financial statements prepared in accordance with SFRS(I), modified for fair value adjustment on acquisition.

	2019	2018
	$'000	$'000
Revenue	29,997	43,998
Profit / (Loss)	(9,018)	(951)
Other comprehensive loss	(70)	(152)
Total comprehensive loss	(9,088)	(1,103)
Attributable to NCI:		
- Loss	(2,525)	(367)
- Other comprehensive loss	(20)	(42)
Total comprehensive loss	(2,545)	(409)
Non-current assets	2,833	9,120
Current assets	53,680	57,930
Non-current liabilities	(259)	(1,077)
Current liabilities	(46,600)	(46,917)
Net assets	9,654	19,056
Accumulated NCI of the subsidiaries at end of financial year	2,742	5,336
Cash flows from / (used in) operating activities	2,586	(1,819)
Cash flows used in investing activities	(3)	(5)
Cash flows (used in) / from financing activities	(944)	3,552

(iv) Significant restrictions

The nature and extent of significant restriction of the Group's ability to use or access assets and settle liabilities of subsidiaries with material NCI are:

Cash and bank balances of WHKD amounting to approximately $7,671,000 (2018: $6,976,000) as at 31 December 2019 held in PRC are subject to local exchange control regulations. These regulations place restriction on the amount of currency being exported other than through dividends, of which bank balances of WHKD of approximately $2,747,000 (2018: $3,564,000) are pledged to banks for the purpose as disclosed in Note 10 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. DEFERRED TAX ASSETS / (LIABILITIES)

	Group	
	2019	2018
	$'000	$'000
At beginning of the financial year	(467)	(793)
Addition arising from acquisition of a subsidiary	282	-
Recognised in the profit or loss (Note 22)	827	328
Currency translation differences	(17)	(2)
At end of the financial year	625	(467)
Presented after appropriate offsetting as follows:		
Deferred tax assets	653	114
Deferred tax liabilities	(28)	(581)
	625	(467)

The components and movement of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax assets of the Group	Allowance of doubtful debts	Others *	Total
	$'000	$'000	$'000
2019			
At beginning of the financial year	117	55	172
Addition arising from acquisition of a subsidiary	-	282	282
Recognised in the profit or loss	260	(51)	209
Currency translation differences	(10)	*	(10)
At end of the financial year	367	286	653
2018			
At beginning of the financial year	112	20	132
Recognised in the profit or loss	6	36	42
Currency translation differences	(1)	(1)	(2)
At end of the financial year	117	55	172

* Others mainly comprised of unutilised tax losses and provision.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. DEFERRED TAX ASSETS / (LIABILITIES) (Continued)

Deferred tax liabilities of the Group	Fair value adjustments on acquisition of a subsidiary	Tax over book depreciation	Total
	$'000	$'000	$'000
2019			
At beginning of the financial year	590	49	639
Recognised in the profit or loss	(590)	(28)	(618)
Currency translation differences	-	7	7
At end of the financial year	-	28	28
2018			
At beginning of the financial year	878	47	925
Recognised in the profit or loss	(287)	1	(286)
Currency translation differences	(1)	1	-
At end of the financial year	590	49	639

Deferred tax assets have not been recognised in respect of the following:

Group	2019	2018	Jurisdiction	Expiring year
	$'000	$'000		
Unabsorbed tax losses	14,761	6,944	Singapore / Philippines / Malaysia / Taiwan	Indefinite
* Unabsorbed tax losses arising from financial year of:				
- 2014	-	428	PRC	2019
- 2015	600	600	PRC	2020
- 2016	779	779	PRC	2021
- 2017	515	515	PRC	2022
- 2018	1,113	1,113	PRC / Vietnam	2023
- 2019	259	-	PRC / Vietnam	2024
	3,266	3,435		
	18,027	10,379		
Unabsorbed capital allowances	60	2	Malaysia	Indefinite
Provisions	850	917	Singapore / Malaysia	Indefinite
Tax over book depreciation	(233)	(161)	Singapore / Malaysia	
Others	4	10	Malaysia	Indefinite
	18,708	11,147		

* The tax losses expired by the end of 5 years from the losses recorded in the respective financial years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. DEFERRED TAX ASSETS / (LIABILITIES) (Continued)

Company	2019	2018	Jurisdiction	Expiring year
	$'000	$'000		
Unabsorbed tax losses	5,426	4,074	Singapore	Indefinite

The unabsorbed tax losses, capital allowances and other deductible temporary differences that can be carried forward and used to offset against future taxable income are subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries. Deferred tax assets have not been recognised in respect of these items due to the uncertainty of its recoverability in foreseeable future.

8. INVENTORIES

	Group	
	2019	2018
	$'000	$'000
Raw materials	4,810	1,771
Trading goods	1,376	1,226
	6,186	2,997

9. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Non-current				
Other receivables:				
- A third party [(i)]	-	613	-	-
Current				
Trade receivables:				
- Third parties	34,125	20,375	-	-
Less: Allowance for impairment losses (Note 28(iii))	(1,896)	(1,184)	-	-
Trade receivables, net (Note 17(b))	32,229	19,191	-	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. TRADE AND OTHER RECEIVABLES (Continued)

	Group		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Current (Continued)				
Contract assets	18,565	37,095	-	-
Less: Allowance for impairment losses (Note 28(iii))	(2,244)	(417)	-	-
Contract assets, net (Note 17(b))	16,321	36,678	-	-
Other receivables:				
- Third parties [(i)]	2,181	1,424	1	-
- Subsidiaries (non-trade)	-	-	24,866	23,029
	2,181	1,424	24,867	23,029
Less: Allowance for impairment losses (Note 28(iii))				
- Third parties	(1,677)	(1,107)	-	-
- Subsidiaries (non-trade)	-	-	(10,756)	(9,327)
Other receivables, net	504	317	14,111	13,702
Refundable deposits [(ii)]	4,227	4,458	1,349	1,347
Less: Allowance for impairment losses (Note 28(iii))	(97)	-	-	-
Refundable deposits, net	4,130	4,458	1,349	1,347
Staff loans	820	441	-	-
Prepayments	380	88	19	2
Advances to suppliers	7,859	4,797	-	-
GST / VAT receivables	264	3,001	8	9
	62,507	68,971	15,487	15,060

[(i)] Included in gross carrying amount of amount owing from a third party is a loan to a former subsidiary of the Group amounting to $617,000 (2018: $613,000) included in current assets (2018: non-current assets), with the following terms:

- Bears fixed interest at then Taiwan's base lending rate 2.616% per annum, payable at maturity.
- 3-years terms with a maturity date on 19 December 2020.
- guaranteed by an individual who is the director of the former subsidiary.

Full ECL allowance has been recognised during the year as that former subsidiary entered into bankruptcy proceedings and the Group does not expect to recover any balance from the proceedings or guarantor.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. TRADE AND OTHER RECEIVABLES (Continued)

(ii) Included in the refundable deposits comprise mainly of the following:

Group and Company

- an amount of US$1,000,000, equivalent to approximately $1,349,000 (2018: US$1,000,000, equivalent to approximately $1,347,000) being paid as part-payment under a framework agreement entered into by the Group with a counterparty (“Vendor”) with the intention to acquire 90% equity interest in a company in Vietnam (“intended acquisition”) for a total purchase consideration of US$2,970,000 (equivalent to approximately $4,007,000) (2018: US$2,970,000, equivalent to approximately $4,051,000). This would allow the Group to carry out due diligence and valuation work before entering into a definitive Sale and Purchase Agreement with the vendor. Based on the due diligence and valuation work results, the Group has determined that the project is not viable due to a number of technical issues and unable to proceed with the intended acquisition. On 27 April 2020, the Group has come into an agreement with the vendor to repay the deposits over 66 monthly instalments commencing from June 2020.

Group

- an amount of RMB6,000,000, equivalent to approximately $1,159,000 (2018: RMB6,000,000, equivalent to approximately $1,191,000) being paid to a Director of the Company, Wang Zhi under a non-binding Letter of Intent dated 5 November 2018 in respect of a proposed investment in a Build-Operate-Transfer (“BOT”) project in Hebei, China for a total consideration of RMB60,000,000, equivalent to approximately $11,588,000 (2018 RMB60,000,000 equivalent to approximately $11,909,000), as announced by the Company on the same date. The transaction is subject to the findings of the due diligence by the Group before entering into a legal binding agreement, which is on-going at the date of this report. The proposed investment is part of the Director’s obligation to transfer the Group a BOT water treatment asset within 24 months upon the Company’s share placement to him on 27 March 2018, which is further extended for 24 months from the initial deadline of 23 March 2020 to 23 March 2022, the details of which are in the Company’s announcement dated 9 September 2019.

- in the previous financial year, an amount of approximately MYR879,000 equivalent to approximately $290,000 was paid as a deposit and part payment with a third party vendor for the purchase of an industrial land in Negeri Sembilan, Malaysia for approximately MYR3,943,000, equivalent to approximately $1,301,000, in accordance with a SPA entered into during the previous financial year. The remaining sum of MYR3,064,000, equivalent to approximately $1,011,000 are payable upon completion of the purchase, within from 4 months from 23 August 2018 (Note 25(iii)), which is financed by internal working capital. During the financial year, the acquisition of the industrial land has been completed, financed by term loan (Note 12) and the Group has obtained the land title which is pledged to the bank.

Trade receivables

Trade receivables are non-interest bearing with credit term of 30 to 90 days (2018: 30 to 90 days).

	Group	
	2019	2018
	$’000	$’000
Retention sum receivables arising from contract revenue		
- to be recoverable within 1 year	-	1

Subsidiaries (non-trade)

These are unsecured, interest-free and repayable on demand.

Staff loans

These are unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. CASH AND BANK BALANCES

	Group		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Cash at bank and on hand	21,523	23,341	2,944	9,554
Fixed deposits [(i)]	5,897	4,584	3,397	4,023
Cash and bank balances as per statements of financial position	27,420	27,925	6,341	13,577
Less: Fixed deposits pledged	(2,236)	(50)		
Less: Bank balances pledged	(2,747)	(3,564)		
	(4,983)	(3,614)		
Less: Fixed deposits with tenure more than 3 months	(114)	-		
Less: Bank overdraft (Note 12)	(2,144)	(1,638)		
Cash and cash equivalents as per consolidated statement of cash flows	20,179	22,673		

(i) Fixed deposits of the Group and the Company bear interest rates ranging from 0.05% to 5.02% and 0.60% to 1.45% (2018: 0.05% to 3.10% and 0.60% to 1.45%) per annum respectively and have a maturity period ranging from 1 to 7 months and 1 month (2018: 1 month and 1 month) respectively from the reporting date.

The movement in pledged fixed deposits and bank balances:

	Group	
	2019	2018
	$'000	$'000
At beginning of the financial year	3,614	1,605
Placement of pledged bank balances	5,584	3,009
Withdrawn of pledged fixed deposits and bank balances	(4,137)	(894)
Currency translation differences	(78)	(106)
At end of the financial year	4,983	3,614

These amounts are pledged in connection with the credit facilities by way of performance, banker and tender guarantees granted by the banks.

As at 31 December 2019, the Group has bank balances placed with banks in PRC denominated in Chinese Renminbi ("RMB") amounting to $7,671,000 or RMB39,730,000 (2018: $6,976,000 or RMB35,581,000). The RMB is not freely convertible into foreign currencies. Under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. TRADE AND OTHER PAYABLES

	Group		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Trade payables:				
- Third parties	18,754	30,386	-	-
Contract liabilities (Note 17(b))	27,378	14,354	-	-
Other payables:				
- Third parties	3,324	462	309	52
- Subsidiaries (non-trade) (i)	-	-	227	1,407
Amount owing to a director (ii)	12	-	-	-
Accruals	2,951	2,105	856	522
GST payables	33	2	-	-
Provision for unutilised leave	140	134	19	4
	52,592	47,443	1,411	1,985

(i) Amount due to subsidiaries are unsecured, interest-free and repayable on demand.

(ii) Amount due to a director is unsecured, interest-free and repayable on demand.

12. BORROWINGS

		Current	Non-current	Total
Group		$'000	$'000	$'000
2019				
Secured	Final maturity			
Bank overdraft (Note 10)	On demand	2,144	-	2,144
Term loan I (i)	26 November 2032	5	90	95
Term loan III (i)	20 December 2030	51	31	82
Term loan V (i)	16 March 2022	251	259	510
Term loan VII (i)	30 April 2034	50	930	980
Term loan VIII (i)	7 August 2020	579	-	579
Trust receipts (iii)	2020	1,959	-	1,959
Unsecured				
Loans from directors of the Company:				
- Mr. Wang Zhi (v)	22 March 2022	4,000	-	4,000
- Mr. Wang Zhi (vi)	21 November 2020	1,349	-	1,349
- Wang Yaoyu (vii)	21 May 2020	218	-	218
Loan from a related party (viii)	5 September 2020	334	-	334
		10,940	1,310	12,250

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. BORROWINGS (Continued)

		Current	Non-current	Total
Group		$'000	$'000	$'000
2018				
Secured	Final maturity			
Bank overdraft (Note 10)	On demand	1,638	-	1,638
Obligations under finance leases	2019	39	78	117
Term loan I (i)	26 November 2032	5	98	103
Term loan III (i)	20 December 2030	62	70	132
Term loan IV (ii)	30 March 2019	992	-	992
Term loan V (i)	16 March 2022	272	485	757
Term loan VI (i)	1 November 2022	56	186	242
Trust receipts (iii)	2019	317	-	317
Unsecured				
Term loan II (iv)	31 May 2019	357	-	357
Loans from directors of the Company:				
- Mr. Wang Zhi (v)	22 March 2020	4,000	-	4,000
- Mr. Wang Yaoyu (vii)	21 May 2019	208	-	208
Loan from a related party (viii)	5 September 2019	338	-	338
		8,284	917	9,201

		Current
Company		$'000
2019		
Unsecured	Final maturity	
Loan from a director of the Company:		
- Mr. Wang Zhi (v)	22 March 2022	4,000
- Mr. Wang Zhi (vi)	21 November 2020	1,349
		5,349
2018		
Unsecured	Final maturity	
Loan from a director of the Company:		
- Mr. Wang Zhi (v)	22 March 2020	4,000

(i) These term loans are secured by pledges over freehold lands, freehold buildings and leasehold lands and buildings of the Group (Note 3 and Note 4). In addition, the Company provided corporate guarantee for Term loan I, III and VII (2018: Term loan I and VI). Included in these loans is Term loan VII and VIII which are 15-year and 1-year term loans obtained by DWS and WHKD in the financial year to finance the acquisition of leasehold land and operation cash flows, which are payable in 180 monthly instalments and as at the maturity date respectively.

(ii) Term loan IV was obtained by WHKD in the financial year ended 31 December 2017. The repayment date was initially due in 27 March 2018 as at 31 December 2017 but it has been extended to 30 March 2019 in the previous financial year ended 31 December 2018. A related party, which is one of non-controlling interest of WHKD (Note 24) has provided guarantee for this loan. During the financial year, the loan has been fully repaid.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. BORROWINGS (Continued)

(iii) Trust receipts are drawn for a period ranging from 20 days to 90 days (2018: 45 days to 150 days) and bear effective interest rates ranging from 0.05% to 7.20% (2018: 0.15% to 5.12%) per annum. The trust receipts are secured by way of corporate guarantee from the Company, the fixed deposits of the Group, certain freehold lands and buildings of the Group (Note 3, Note 4 and Note 10).

(iv) Term loan II is a term loan obtained by WHKD for working capital purposes. The term loan has been fully repaid during the financial year.

(v) Loan from an individual, Mr. Wang Zhi, amounting to $4,000,000 (“the Loan”), is granted as part of the conditions precedent to the placement of placement of 27,680,000 new shares by the Company to Mr. Wang (“WZ Placement”), which has been completed on 23 March 2018 and Mr. Wang has been appointed as director of the Company on 3 April 2018. The Loan was for working capital of the WHKD.

The Loan shall be repayable within 24 months from the completion date of WZ Placement (i.e. March 2020) or upon completion of the transfer of a water treatment asset or concession by him to the Group, whichever is earlier, and shall be subject to an interest of 5% (2018: 5%) per annum, to be paid quarterly in arrears. The Loan has been fully repaid subsequent to the financial year end.

(vi) Loan from a director, Mr. Wang Zhi, amounting to US$1,000,000 (“the Loan”), equivalent to approximately $1,349,000 is granted for the purpose of funding the costs and expenses incurred in relation to the acquisition of an effective interest of not less than 60% of PT Jabar Bersih Lestari through the acquisition of PT Panghegar Energy Indonesia from Emsus Co., Ltd. (“the Proposed Transaction”), which was completed on 12 December 2019 (Note 6(b)).

The Loan shall be subject to an interest of 5% per annum and to be repaid on 21 November 2020.

(vii) This amount is unsecured and bears interest at 8% (2018: 8%) per annum. Full repayment has been made as of date of these financial statements.

(viii) This amount is due to WHLK (Note 24), unsecured and bears interest at 4.35% (2018:4.35%) per annum. The repayment date has been extended for a year to 5 September 2020.

Bank overdraft (Floating rate)

The bank overdrafts are secured by freehold land and building of a subsidiary and by corporate guarantee from the Company and bears an effective interest rate of 7.70% to 8.14% (2018: 7.95% to 8.35%) per annum.

Term loans

The term loans bear the interest rates as follows:

	Interest rate (per annum)	Group	
		2019	2018
Term loan I	Bank Lending Rate - 2.1%	4.62%	4.87%
Term loan II	Fixed rate	-	6.09%
Term loan III	Bank Lending Rate - 2.0%	4.70%	4.85%
Term loan IV	Fixed rate	-	6.09%
Term loan V	Loan Prime Rate x 1.25	5.94%	5.94%
Term loan VI	Fixed rate	-	6.25%
Term loan VII	Bank Lending Rate - 2.3%	4.40%	-
Term loan VIII	Fixed rate	6.09%	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. BORROWINGS (Continued)

Reconciliation of liabilities arising from financing activities

Group	As at 31 December 2018	Application of SFRS(I) 16	As at 1 January 2019	Financing cash flows [i]	Non-cash changes: New leases	Non-cash changes: Currency translation difference	As at 31 December 2019
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Borrowings	7,446 *	-	7,446	2,713	-	(53)	10,106
Lease liabilities (Note 13)	117	502	619	(319)	268	(3)	565
	7,563	502	8,065	2,394	268	(56)	10,671

Group	As at 1 Jan 2018	Additions	Financing cash flows [i]	Non-cash changes: Foreign exchange movement	As at 31 Dec 2018
	$'000	$'000	$'000	$'000	$'000
Borrowings – Loans and trust receipts	8,225 *	-	(704)	(75)	7,446*
Obligations under finance leases	64	97	(43)	(1)	117
	8,289	97	(747)	(76)	7,563

(i) The cash flows show the net amount of proceeds from borrowings and repayments of borrowings presented in the consolidated statement of cash flows.

* Amount excludes bank overdraft as it is part of cash and cash equivalents (Note 10).

Obligations under finance leases under SFRS(I) 1-17 as at 31 December 2018

These obligations are secured by a charge over the leased assets (Note 3). The average discount rate implicit in the leases is at 3.49% per annum.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. BORROWINGS (Continued)

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

Group	Minimum lease payments	Present value of payments
2018	$'000	$'000
Current portion:		
- Not later than 1 year	45	39
Non-current portion:		
- Later than 1 year and not later than 5 years	86	78
	131	117
Less: Amounts representing finance charges	(14)	-
	117	117

13. LEASE LIABILITIES

	Group	
	2019	2018
	$'000	$'000
Current liabilities	323	-
Non-current liabilities	242	-
	565	-

The total cash outflows for the year for all lease contracts amounted to $582,000, which includes leases expenses not included in lease liabilities, as disclosed in Note 21.

14. DERIVATIVE FINANCIAL INSTRUMENT

	Group	
	Contract notional amount	Fair value liability
	$'000	$'000
2019		
Non-hedging instruments		
Currency forwards	385	3

Derivatives financial instruments comprise of the United States dollars / Singapore dollars currency used to manage the exposure from highly probable forecast transactions expected to occur at various dates within 6 months from the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. SHARE CAPITAL

	Group and Company			
	2019		2018	
	Number of ordinary shares	$'000	Number of ordinary shares	$'000
Issued and fully paid ordinary shares				
At beginning of the financial year	93,831,492	76,766	57,326,601	54,274
Placement of ordinary shares [(i)]	-	-	32,680,000	20,992
Issued for acquisition of a subsidiary [(ii)]	-	-	3,824,891	1,760
Shares issue expenses	-	-	-	(260)
At end of the financial year	93,831,492	76,766	93,831,492	76,766

(i) 2018
On 8 February 2018, 21 March 2018 and 23 March 2018, the Company issued a total of 3,500,000, 1,500,000 and 27,680,000 placement shares at an issue price of $0.60, $0.60 and $0.65 for each placement share respectively. Out of the total amount of $20,992,000, $4,844,000 was collected in the financial year ended 31 December 2017, which was classified as placement monies received in advance and the remaining $16,148,000 was fully received in the previous financial year ended 31 December 2018.

(ii) On 21 March 2018, the Company issued 3,824,891 shares at a fair value issue price of $0.46 for the acquisition of additional 12% equity interest in Wuhan Kaidi Water Services Co., Ltd. (Note 6(c)).

The newly issued shares rank pari passu in all respects with previously issued shares. The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

Share option

On 6 November 2014, the shareholders of the Company have approved the proposed Darco Performance Share Plan ("Share Plan") as part of a remuneration and compensation plan for attracting as well as retaining executive personnel and Directors.

Directors of the Company and its subsidiaries (including Non-Executive Directors) and Directors and employees of an associated company where the Company has control over the associated company are eligible in the Share Plan. The number of shares available under the said Share Plan will be subject to the maximum limit of 15% of the Company's total issued shares.

As at the date of this report, no shares have been granted under the Share Plan.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16(a). OTHER RESERVES

	Capital reserve **	Foreign currency translation reserve **	Statutory reserve *	Total
Group	$'000	$'000	$'000	$'000
2019				
At beginning of the financial year	603	(4,348)	484	(3,261)
Disposal of shares from non-controlling interests without a change in control (Note 6(f))	237	-	-	237
Net exchange differences on translation of financial statements of foreign subsidiaries	-	(442)	-	(442)
Non-controlling interests	-	71	-	71
At end of the financial year	840	(4,719)	484	(3,395)
2018				
At beginning of the financial year	-	(3,688)	376	(3,312)
Acquisition of shares from non-controlling interests without a change in control (Note 6(c))	603	-	-	603
Net exchange differences on translation of financial statements of foreign subsidiaries	-	(812)	-	(812)
Non-controlling interests	-	152	-	152
Allocation to statutory reserve	-	-	108	108
At end of the financial year	603	(4,348)	484	(3,261)

* In accordance with the Foreign Enterprise Law of The People's Republic of China ("PRC"), the subsidiary, being part of a foreign-owned enterprise is required to make contributions to a statutory reserve fund. At least 10 per cent of the statutory after-tax profits as determined in accordance with the applicable PRC accounting standards and regulations is required to be allocated to the statutory reserve fund. If the cumulative total of the statutory reserve fund reaches 50% of the subsidiary's registered capital, the enterprise will not be required to make any additional contribution.

The statutory reserve fund may be used to offset accumulated losses or increase the registered capital of the subsidiary, subject to approval from the relevant PRC authorities and is not available for dividend distribution to the shareholders. The PRC enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

** No dividend may be paid, and no other distribution (whether in cash or otherwise) of the Company's assets (including any distribution of assets to members on a winding up) may be made in respect of this reserve.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16(b). ACCUMULATED LOSSES

	Company	
	2019	2018
	$'000	$'000
At beginning of the financial year	(39,469)	(38,358)
Loss for the financial year	(2,490)	(1,111)
At end of the financial year	(41,959)	(39,469)

17. REVENUE

(a) Disaggregation of revenue

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major type of goods and services and geographical location based on location of customers.

	Group			
	Contract revenue	Rendering of services	Sale of goods	Total
	$'000	$'000	$'000	$'000
2019				
Geographical markets				
PRC	29,998	-	-	29,998
Malaysia	9,123	7,154	12,048	28,325
Singapore	14,246	322	482	15,050
Taiwan	-	742	-	742
Vietnam	-	128	225	353
Others	333	-	-	333
	53,700	8,346	12,755	74,801
Timing of revenue recognition				
At a point of time	-	5,247	12,755	18,002
Over time	53,700	3,099	-	56,799
	53,700	8,346	12,755	74,801

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. REVENUE (Continued)

(a) Disaggregation of revenue (Continued)

	Group			
	Contract revenue	Rendering of services	Sale of goods	Total
	$'000	$'000	$'000	$'000
2018				
Geographical markets				
PRC	43,998	-	-	43,998
Malaysia	11,179	7,340	10,865	29,384
Singapore	6,851	326	688	7,865
Taiwan	-	718	-	718
Others	1,695	-	172	1,867
	63,723	8,384	11,725	83,832
Timing of revenue recognition				
At a point of time	-	5,418	11,725	17,143
Over time	63,723	2,966	-	66,689
	63,723	8,384	11,725	83,832
Reportable segment (Note 27)	EE Systems	WM Services	Trading	

(b) Contract balances

Contract with customers give rise to the following balances as at the reporting date:

	Group	
	2019	2018
	$'000	$'000
Trade receivables (Note 9)	32,229	19,191
Contract assets (Note 9)	16,321	36,678
Contract liabilities (Note 11)	(27,378)	(14,354)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. REVENUE (Continued)

(b) Contract balances (Continued)

The timing of revenue recognition, billings and cash collections results in billed accounts receivable (included in trade receivables), unbilled receivables (contract assets), and contract liabilities.

Contract assets relate to the Group's right to consideration for work completed but yet to be billed at reporting date on contract revenue, which will be transferred to trade receivables when the rights become unconditional upon invoicing. Invoicing is in accordance with milestones payments set out in the contract, normally first 10% to 20% (2018: 10% to 20%) of contract sum is payable by customers within 14 to 30 days (2018: 14 to 30 days) of signing of contracts and furnishing performance bond if required. Normally the last payment is billable upon final acceptance, or within 12 months from final acceptance. The payments terms for contract revenue in Singapore is normally based on payment claims certified on a monthly basis.

Contract liabilities relating to contract revenue represents the excess of milestone payments over the revenue recognised to date and advances received from customers.

These assets and liabilities are reported as contract assets or liabilities on a contract by contract basis at the end of each reporting period.

Significant changes in the contract assets and liabilities balances during the year are:

	Contract assets	
	2019	2018
	$'000	$'000
Amount included in contract asset balances at beginning of the year reclassified to trade receivables	28,820	13,383

	Contract liabilities	
	2019	2018
	$'000	$'000
Revenue recognised in current year that was included in the contract liabilities balances at beginning of the year	11,308	9,925

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. REVENUE (Continued)

(c) Performance obligations

As at reporting date, the transaction price allocated to remaining performance obligations in contracts that are unsatisfied which is expected to be recognised as revenue for the future periods are as follows:

	Group		
	Within 1 year $'000	Within 2 to 5 years $'000	Total $'000
Revenue expected to be recognised on unsatisfied performance obligations of this contract as of 31 December 2019	57,255	14,429	71,684
Revenue expected to be recognised on unsatisfied performance obligations of this contract as of 31 December 2018	47,031	27,220	74,251

18. OTHER INCOME

	Group	
	2019 $'000	2018 $'000
Gain on disposal of property, plant and equipment	8	3
Gain on foreign exchange, net	8	35
Government grants	248	389
Interest income	151	90
Reversal of payables	-	128
Miscellaneous income	36	34
	451	679

19. FINANCE COSTS

	Group	
	2019 $'000	2018 $'000
Interest expenses on:		
- amount owing to a related party (Note 24)	15	22
- amount due to directors of the Company (Note 24)	219	230
- borrowings	256	252
- lease liabilities (2018: finance lease obligations)	25	4
- trust receipts	24	77
- other payables	11	-
	550	585

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. PERSONNEL EXPENSES

	Group	
	2019	2018
	$'000	$'000
Directors of the Company:		
- Directors' fees	113	138
- Directors' remuneration and related costs	280	489
- Defined contributions plan expenses	28	43
Directors of the subsidiaries:		
- Directors' fees	179	206
- Directors' remuneration and related costs	618	404
- Defined contributions plan expenses	41	26
Other key management personnel (non-directors):		
- Salaries and related costs	362	85
- Defined contributions plan expenses	35	14
Total key management personnel remuneration	1,656	1,405
Other personnel:		
- Salaries and related costs	9,117	8,853
- Defined contributions plan expenses	656	1,035
	9,773	9,888
	11,429	11,293
Total personnel expenses comprise:		
- Salaries and related costs	10,669	10,175
- Defined contributions plan expenses	760	1,118
	11,429	11,293

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. PERSONNEL EXPENSES(Continued)

Total key management personnel remuneration included as above include:

	Group	
	2019	2018
	$'000	$'000
Short-term employee benefits	1,552	1,322
Defined contributions plan expenses	104	83
	1,656	1,405

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company and respective subsidiaries, including all directors of the Company and respective subsidiaries.

21. LOSS BEFORE INCOME TAX

This is determined after charging / (crediting) the following:

	Group	
	2019	2018
	$'000	$'000
Amortisation of intangible assets (Note 5)	1,669	1,752
Auditors' remuneration paid / payable to:		
- auditor of the Company	168	192
- other auditors	133	175
Direct material costs included in cost of sales	36,132	39,562
Sub-contractor costs	3,890	3,989
Depreciation of property, plant and equipment (Note 3)	650	754
Depreciation of right-of-use assets (Note 4)	320	-
Fair value loss on derivatives	3	-
Inventories written off	78	148
Legal and other professional fees	591	1,072
Leases expenses not included in lease liabilities – short term leases (2018: operating lease expenses)	237	556
Personnel expenses (Note 20)	11,429	11,293
Property, plant and equipment written off	6	6
Gain on disposal of property, plant and equipment	(6)	(3)
Loss on foreign exchange, net	269	260
Impairment loss on financial asset, net (Note 28(iii))	3,771	506
Impairment loss on intangible assets (Note 5)	2,920	-
Research and development fees	1,392	1,409

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. INCOME TAX (CREDIT) / EXPENSE

Major components of income tax expense for the financial year ended 31 December were:

	Group	
	2019	2018
	$'000	$'000
Current tax		
- Current year	322	458
- Under / (Over) provision in the previous financial years	88	(38)
	410	420
Deferred tax (Note 7)		
- Current year	(871)	(244)
- Under / (Over) provision in the previous financial years	44	(84)
	(827)	(328)
Income tax (credit) / expense	(417)	92

The reconciliation of income tax (credit) / expense and the product of accounting loss multiplied by the applicable rate is as follows:

	Group	
	2019	2018
	$'000	$'000
Accounting loss	(11,898)	(1,718)
Tax at the applicable tax rate of 17% (2018: 17%)	(2,023)	(292)
Tax effects of:		
- different tax rates in other countries	(20)	(46)
- tax incentives	(203)	(170)
- expenses not deductible for tax purposes	260	336
- income not subject to tax	(120)	(96)
- deferred tax asset not recognised	1,611	495
- utilisation of previously unrecognised tax losses	(54)	(13)
- under / (over) provision of current tax in the previous financial years	88	(38)
- under / (over) provision of deferred tax in the previous financial years	44	(84)
Income tax (credit) / expense	(417)	92

The Company and Singapore subsidiaries

The Company and Singapore subsidiaries are subject to an applicable tax rate of 17% (2018: 17%). The Company and certain subsidiaries are in a tax loss position for both the financial years ended 31 December 2019 and 2018 and hence they are not subject to tax in the respective years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. INCOME TAX (CREDIT) / EXPENSE (Continued)

Wuhan Kaidi Water Services Co., Ltd.
In accordance with the Income Tax Law of The People's Republic of China ("PRC") for New and High Technology Enterprise and various documents issued by the Tax Bureau of the PRC, the subsidiary, being awarded the "High Technology Enterprise" status, enjoys a concessionary tax rate of 15%, from year 2017 to 2020 as compared to the statutory tax rate for PRC companies of 25%.

Malaysia subsidiaries
Malaysia subsidiaries are subject to an applicable tax rate of 24% (2018: 24%). Certain subsidiaries are in a tax loss position for both the financial years ended 31 December 2019 and 2018 and hence they are not subject to tax in the respective years.

Taiwan subsidiary
Taiwan subsidiary are subject to an applicable tax rate of 20% (2018: 17%).

Shanghai Darco Engineering Co., Ltd. (PRC)
This subsidiary is subject to an applicable tax rate of 25% (2018: 25%). It is in a tax loss position for both the financial years ended 31 December 2019 and 2018 and hence it is not subject to tax.

Darco Environmental (Philippines) Inc.
This subsidiary is subject to an applicable tax rate of 30% (2018: 30%). It is in a tax loss position for the financial years ended 31 December 2019 and 2018 and hence it is not subject to tax.

23. LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year. The calculation of loss per share is based on the following:

	Group	
	2019	2018
Net loss attributable to equity holders of the Company ($'000)	(8,829)	(1,441)
Weighted average number of ordinary shares outstanding for basic earnings per share	93,831,492	86,071,899
Basic and diluted loss per share (cents)	(9.41)	(1.67)

Diluted loss per share is the same as the basic loss per share as there were no share options, warrants or other compound financial instruments with dilutive effect were granted during the financial year or outstanding at the end of the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. RELATED PARTY TRANSACTIONS

Some of the arrangements with related parties (as defined in Note 2) and the effects of these bases determined between the parties are reflected elsewhere in this report. Transactions between the Company and its subsidiaries, which are related companies of the Company, have been eliminated on consolidation and are disclosed in this note.

	Group		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Interest paid to a related party [i]	15	22	-	-
Interest paid to directors of the Company				
- Mr. Wang Yaoyu [i]	19	20	-	-
- Mr. Wang Zhi [ii]	200	210	200	210

(i) Wuhan Liankai Investment Co., Ltd. ("WHLK") is considered a related party to the Group as it owns 14.27% (2018: 14.27%) of the Company's shares as at 31 December 2019. The director / controlling shareholder of WHLK is Mr Wang Yaoyu, who is also a director of the Company. WHLK remains as the non-controlling interest of WHKD, which is a 72% (2018: 72%) owned subsidiary acquired by the Group in financial year 2016 from vendors including WHLK.

Included in borrowings of the Group (Note 12) as at 31 December 2019 and 2018 were amounts owing by WHKD to WHLK and amounts due to a director of the Company. In addition, WHLK also provides guarantees, at no charges, for the bank loans of WHKD which has been fully paid during the financial year, as disclosed in Note 12.

(ii) Included in borrowings (Note 12) as at 31 December 2019 was an amount owing to Mr. Wang Zhi, who is a director of the Company.

25. CONTINGENCIES AND COMMITMENTS

(i) Contingent liabilities

The Group has provided the following guarantees as at 31 December:

	Group		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Corporate guarantees provided to banks and financial institutions for credit facilities granted to subsidiaries (Note 28(ii)) – amount utilised	-	-	5,258	2,242

The Company has assessed that those subsidiaries have strong financial capacity to meet the contractual cash flows obligation by the repayment due dates and hence, does not expect significant credit losses arising from these guarantees. As a result, the financial effects of SFRS(I) 9 relating to financial guarantee contracts issued by the Company are not material to the financial statements of the Company and therefore are not recognised as a liability as at 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. CONTINGENCIES AND COMMITMENTS(Continued)

(i) Contingent liabilities (Continued)

The Company has also given undertakings to continue to provide financial support to certain subsidiaries as and when required to allow them to meet their obligations.

(ii) Non-cancellable operating lease commitments as at 31 December 2018 (SFRS(I) 1-17)

The Group leases lands, staff hostels, factories, warehouses and offices from non-related parties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debts or further leasing.

The future minimum lease payables under non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, are as follows:

	Group
	2018
	$'000
Future minimum lease payments	
- Not later than 1 year	222
- Later than 1 year and not later than 5 years	84
	306

(iii) Capital commitments

Capital expenditure contracted for as at 31 December 2019 but not recognised in the financial statements is as follows:

	Group	
	2019	2018
	$'000	$'000
In respect of property, plant and equipment:		
- construction of leasehold building (2018: purchase of an industrial land) (Note 9(ii))	1,186	1,011

26. INTERESTS IN A JOINT OPERATION

The Group has a 33.33% ownership interest in a joint operation, Darco Q2 Fitama Consortium, with Q2 A/S and PT. Fitama Putri Mandiri for the execution and completion of work and remedy defects therein in full compliance with the provision of the works contract. The work is related to landfill gas recovery and conversion at Jari Barang Landfill, Semarang, Central Java, Indonesia.

The Group's share of the revenue contribution and net profit from the joint operation amounting to $226,000 and $43,000 (2018: $851,000 and $170,000) respectively. As at 31 December 2019, included in the consolidated statement of financial position is trade and other receivables and cash and cash equivalents of the joint operation totalling to $498,000 (2018: $540,000).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. SEGMENT INFORMATION

For management purposes, the Group has three operating and reportable segments – Engineered Environmental Systems ("EE Systems"), Water Management Services ("WM Services") and Trading. The principal activities of the Group's operating segments are summarised as follows:

(i) EE Systems – Construction contract on designs, fabricates, assembles, installs and commission engineered water systems for industrial application;
(ii) WM Services – Services and maintains water and wastewater treatment plants; and
(iii) Trading – Trades and supplies of goods comprising chemicals, electrical controls and related instruments used in water treatment systems.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated by the Chief Executive Officer (the chief operating decision maker) based on gross profit or loss of the respective segment. Segment assets and liabilities reported to the CEO represent total assets and liabilities of the reportable segment excluding the corporate functions and any unallocated amount recorded in subsidiaries with multiple segment businesses and subsidiaries that have yet to commence operations.

Business segments

The information for the reportable segments for the financial years ended 31 December 2019 and 2018 is as follows:

2019	EE Systems	WM Services	Trading	Eliminations	Total
	$'000	$'000	$'000	$'000	$'000
Revenue					
Sales to external customers	53,700	8,346	12,755	-	74,801
Inter-segment sales	-	-	608	(608)	-
Total	53,700	8,346	13,363	(608)	74,801
Segment profit	5,179	2,148	2,672	-	9,999
Other information:					
Additions to property, plant and equipment	7	9	55	-	71
Impairment loss on financial assets, net	2,734	731	351	-	3,816
Impairment loss on intangible assets	2,920	-	-	-	2,920
Amortisation of intangible assets	1,669	-	-	-	1,669
Depreciation of property, plant and equipment	375	49	60	-	484
Depreciation of right-of-use assets	7	-	30	-	37
Finance costs	249	50	48	-	347
Interest income	48	12	18	-	78
Loss / (Gain) on disposal of property, plant and equipment	1	(8)	-	-	(7)
Legal and other professional fees	72	7	34	-	113

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. SEGMENT INFORMATION (Continued)

Business segments (Continued)

2019	EE Systems	WM Services	Trading	Eliminations	Total
	$'000	$'000	$'000	$'000	$'000
Assets					
Segment assets	78,254	5,213	8,639	-	92,106
Liabilities					
Segment liabilities	52,063	1,436	1,377	-	54,876

2018	EE Systems	WM Services	Trading	Eliminations	Total
	$'000	$'000	$'000	$'000	$'000
Revenue					
Sales to external customers	63,723	8,384	11,725	-	83,832
Inter-segment sales	185	-	346	(531)	-
Total	63,908	8,384	12,071	(531)	83,832
Segment profit	6,754	3,703	4,380	(879)	13,958
Other information:					
Additions to property, plant and equipment	338	3	151	-	492
Impairment loss on financial assets, net	559	(6)	(47)	-	506
Amortisation of intangible assets	1,752	-	-	-	1,752
Depreciation of property, plant and equipment	189	55	72	-	316
Finance costs	496	38	31	-	565
Interest income	17	19	7	-	43
Loss / (Gain) on disposal of property, plant and equipment	(1)	5	(1)	-	3
Legal and other professional fees	122	154	21	-	297
Assets					
Segment assets	77,396	3,663	5,670	-	86,729
Liabilities					
Segment liabilities	45,483	2,168	2,652	-	50,303

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. SEGMENT INFORMATION (Continued)

Reconciliation

(i) Segment profits

The following items are added to / (deducted from) segment profit to arrive at “loss before income tax” as presented in the consolidated statement of profit or loss and other comprehensive income:

	2019 $’000	2018 $’000
Segment profit from the reportable segments	9,999	13,958
Other income	451	679
Distribution expenses	(1,733)	(2,147)
Administrative expenses	(16,294)	(13,117)
Impairment loss on financial assets	(3,771)	(506)
Finance costs	(550)	(585)
Loss before income tax	(11,898)	(1,718)

(ii) Other material information

	2019 $’000	2018 $’000
Additions to property, plant and equipment		
Segment total	71	492
Unallocated:		
- Relates to general and corporate assets	3,392	59
	3,463	551
Depreciation of property, plant and equipment		
Segment total	(484)	(316)
Unallocated:		
- Relates to general and corporate assets	(166)	(438)
	(650)	(754)
Depreciation of right-of-use assets		
Segment total	(37)	-
Unallocated:		
- Relates to general and corporate assets	(283)	-
	(320)	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. SEGMENT INFORMATION (Continued)

Reconciliation (Continued)

(ii) Other material information (Continued)

	2019	2018
	$'000	$'000
Impairment loss on financial assets		
Segment total	(3,816)	(506)
Unallocated:		
- Relates to general and corporate assets	45	-
	(3,771)	(506)
Legal and other professional fees		
Segment total	(113)	(297)
Unallocated:		
- Arising from general and corporate activities	(478)	(775)
	(591)	(1,072)
Interest income		
Segment total	78	43
Unallocated:		
- Arising from general and corporate used bank balances	73	47
	151	90
Finance costs		
Segment total	(347)	(565)
Unallocated:		
- Relating to borrowings for general working capital purpose and lease liabilities for general and corporate assets	(203)	(20)
	(550)	(585)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. SEGMENT INFORMATION (Continued)

Reconciliation (Continued)

(iii) Segment assets

Segment assets are reconciled to total assets as follows:

	2019 $'000	2018 $'000
Segment assets for reportable segments	92,106	86,729
Unallocated assets:		
- Deferred tax assets	-	114
- Property, plant and equipment	4,740	4,374
- Right-of-use assets	272	-
- Other receivables	3,544	5,442
- Income tax recoverable	14	46
- Cash and bank balances	8,171	15,122
	108,847	111,827

(iv) Segment liabilities

Segment liabilities are reconciled to total liabilities as follows:

	2019 $'000	2018 $'000
Segment liabilities for reportable segments	54,876	50,303
Unallocated liabilities:		
- Deferred tax liabilities	-	44
- Income tax payable	-	1
- Other payables	4,145	2,742
- Lease liabilities	281	-
- Borrowings	6,400	4,585
	65,702	57,675

Geographical segments

The Group's three operating segments operate in six main geographical areas:

(i) Taiwan – the operations in this area are principally the design, fabrication and installation of water and waste water pollution control engineering, air pollution control engineering ("EE Systems"), solid waste disposal treatment and incineration, noise and vibration prevention engineering, soil pollution control engineering and environmental monitoring system ("WM Services").

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

(ii) Malaysia – the operations in this area are principally the designing, installing, setting up and maintaining of industrial waste treatment plant ultra-pure system ("EE Systems"), testing of waste water and processed water, rendering of other related waste treatment plant services ("WM Services") and trading in industrial water treatment, spare parts and chemicals ("Trading").

(iii) PRC – the operations in this area are principally the supply of potable water, design, fabrication, installation and commissioning of environmental engineering system and providing consultancy services in relation to such business as well as designing, installing, setting up and maintaining of industrial waste treatment plant ultra-pure system ("EE Systems").

(iv) Singapore – the Company is headquartered and has operations in Singapore. The operations in this area are principally investment holding, design and fabrication of water treatment systems ("EE Systems"), and providing consultancy services in relation to such business ("WM Services") and trading in industrial water treatment spare parts and chemicals ("Trading").

(v) Vietnam – the operations in this area are principally the designing, installing and commissioning of treatment systems for water purification ("EE Systems") as well as treatment of waste water and other waste discharge for industrial use ("WM Services") and supplying chemicals and components used in manufacturing and maintenance water treatment systems ("Trading").

(vi) Other countries – the operations in Philippines include the design, installation and commissioning of treatment systems for water purification, treatment of wastewater and other waste discharge for industrial use ("EE Systems"); and operations in Indonesia through acquisition of PEI group as disclosed in Note 6(b) is principally the provision of regional solid waste management and treatment infrastructure, which has yet to commence commercial operation.

Revenue and non-current assets information based on the geographical location of contracting customers (regardless of projects location for contract revenue) are as follows:

	Revenue		Non-current assets	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
PRC	29,998	43,998	2,461	7,390
Malaysia	28,325	29,384	4,025	2,336
Singapore	15,050	7,865	1,259	1,022
Taiwan	742	718	52	93
Vietnam	353	-	472	-
Other countries	333	1,867	3,669	1
	74,801	83,832	11,938	10,842

Non-current assets presented above include property, plant and equipment, right-of-use assets and intangible assets based on the location of the assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

Major customers

Revenue of approximately $9,081,000 (2018: $13,504,000), or 12% (2018:16%) of the Group's revenue in 2019, is derived from a listed power-producers group of companies based in the PRC, which is attributable to the "EE Systems" segment.

None of the customers in the "WM Services" and "Trading" segment contributed to more than 10% of the Group's total revenue.

28. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's activities expose it to market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management of the Group. The management then establishes the detailed policies such as authority levels, oversight responsibilities, risk identification and measurement, exposure limits and hedging strategies, in accordance with the objectives and underlying principles approved by the Board of Directors.

(i) Market risk

(a) Foreign exchange risk

The Group operates in Asia with dominant operations in Singapore, The People's Republic of China, Taiwan, Malaysia and Philippines. Entities in the Group regularly transact in currencies other than their respective functional currencies ("foreign currencies").

Foreign exchange risk arises for transactions that are mainly denominated in foreign currencies such as the United States dollars ("USD"), Malaysia ringgit ("MYR"), New Taiwan dollars ("NTD"), Chinese Renminbi ("RMB") and others.

In addition, the Group is exposed to currency translation risk on the net assets in foreign operations. Currency exposure to the net assets of the Group's foreign operations in The People's Republic of China, Malaysia and Taiwan is managed primarily through borrowings denominated in the relevant foreign currencies.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

The Group's currency exposure based on the information provided to the key management is as follows:

Group 2019	SGD	USD	MYR	NTD	RMB	Others *	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets							
Trade and other receivables	6,089	1,620	8,429	115	36,128	1,623	54,004
Cash and bank balances	13,315	2,360	3,418	92	7,725	510	27,420
Intragroup receivables	23,416	1,737	2,478	1,347	2,064	572	31,614
	42,820	5,717	14,325	1,554	45,917	2,705	113,038
Financial liabilities							
Trade and other payables	3,101	583	3,395	378	14,859	2,725	25,041
Borrowings	4,517	2,215	3,741	-	1,641	136	12,250
Lease liabilities	258	-	307	-	-	-	565
Intragroup payables	23,416	1,737	2,478	1,347	2,064	572	31,614
	31,292	4,535	9,921	1,725	18,564	3,433	69,470
Net financial assets / (liabilities)	11,528	1,182	4,404	(171)	27,353	(728)	43,568
Add: Currency forward contracts	-	385	-	-	-	-	385
Less: Net financial (assets) / liabilities denominated in the respective entities' functional currencies	(16,451)	-	(4,821)	1,518	(25,581)	1,558	(43,777)
Foreign currency exposure	(4,923)	1,567	(417)	1,347	1,772	830	176

* Others are denominated in Euro, Pakistani Rupee, Indonesian rupiah, Vietnamese Dong, Philippines Peso and Danish Krone.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Group 2018	SGD	USD	MYR	NTD	RMB	Others *	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets							
Trade and other receivables	4,120	1,664	10,158	1,070	43,256	1,430	61,698
Cash and bank balances	17,595	1,193	1,470	39	7,064	564	27,925
Intragroup receivables	12,865	296	5,311	1,673	1,840	2	21,987
	34,580	3,153	16,939	2,782	52,160	1,996	111,610
Financial liabilities							
Borrowings	4,258	235	2,057	-	2,651	-	9,201
Trade and other payables	2,822	312	5,511	393	23,697	220	32,955
Intragroup payables	12,865	296	5,311	1,673	1,840	2	21,987
	19,945	843	12,879	2,066	28,188	222	64,143
Net financial assets	14,635	2,310	4,060	716	23,972	1,774	47,467
Less: Net financial assets denominated in the respective entities' functional currencies	(14,707)	-	(4,128)	(716)	(23,780)	(224)	(43,555)
Foreign currency exposure	(72)	2,310	(68)	-	192	1,550	3,912

* Others are denominated in Thailand baht, Euro, Australian dollars, Pakistani Rupee, Indonesian rupiah, Vietnamese Dong and Philippines Peso.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Company 2019	SGD	USD	NTD	RMB	Total
	$'000	$'000	$'000	$'000	$'000
Financial assets					
Trade and other receivables	11,608	2,505	1,347	-	15,460
Cash and bank balances	6,120	221	-	-	6,341
	17,728	2,726	1,347	-	21,801
Financial liabilities					
Trade and other payables	1,165	226	-	1	1,392
Borrowings	4,000	1,349	-	-	5,349
	5,165	1,575	-	1	6,741
Net financial assets / (liabilities)	12,563	1,151	1,347	(1)	15,060
Less: Net financial assets denominated in the Company's functional currency	(12,563)	-	-	-	(12,563)
Foreign currency exposure	-	1,151	1,347	(1)	2,497

Company 2018	SGD	USD	NTD	RMB	Total
	$'000	$'000	$'000	$'000	$'000
Financial assets					
Trade and other receivables	11,341	2,370	1,338	-	15,049
Cash and bank balances	13,300	269	-	8	13,577
	24,641	2,639	1,338	8	28,626
Financial liabilities					
Trade and other payables	575	1,406	-	-	1,981
Borrowings	4,000	-	-	-	4,000
	4,575	1,406	-	-	5,981
Net financial assets	20,066	1,233	1,338	8	22,645
Less: Net financial assets denominated in the Company's functional currency	(20,066)	-	-	-	(20,066)
Foreign currency exposure	-	1,233	1,338	8	2,579

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Foreign exchange risk sensitivity

The following table details the sensitivity to a 5% (2018: 5%) increase and decrease in the functional currencies against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% (2018: 5%) change in foreign currency rates.

If the foreign currencies strengthen by 5% (2018: 5%) against the relevant functional currencies, with all other variables held constant, the Group's and the Company's loss for the financial year will increase / (decrease) by:

	SGD	USD	MYR	NTD	RMB	Others*
	$'000	$'000	$'000	$'000	$'000	$'000
2019						
Group						
Loss for the financial year	204	(65)	17	(56)	(74)	(34)
Company						
Loss for the financial year	-	(48)	-	(56)	**	-
2018						
Group						
Loss for the financial year	3	(96)	3	-	(8)	(64)
Company						
Loss for the financial year	-	(51)	-	(56)	**	-

* Others are denominated in Thailand baht, Euro, Australian dollars, Pakistani Rupee, Indonesian rupiah, Vietnamese Dong, Philippines Peso and Danish Krone.
** Amount less than $1,000.

A 5% (2018: 5%) weakening of foreign currencies against the respective functional currencies at the reporting date would have had the equal opposite effect on the above currencies to the amount shown above, on the basis that all other variables held constant.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(b) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's exposure to cash flow interest rate risks arises mainly from non-current variable-rate borrowings.

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments, as reported to the Management, is as follows:

	Group		Company	
	Carrying amount		Carrying amount	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Fixed rate instruments				
Financial assets				
- Other receivables (Note 9)	*	613	-	-
- Fixed deposits (Note 10)	5,897	4,584	3,397	4,023
Financial liabilities				
- Borrowings (Note 12)	(8,439)	(5,579)	(5,349)	(4,000)
- Lease liabilities (Note 13)	(565)	-	-	-
	(3,107)	(382)	(1,952)	23
Variable rate instruments				
Financial liabilities				
- Borrowings (Note 12)	(3,811)	(3,622)	-	-

* Amount less than $1,000.

<u>Fair value sensitivity analysis for fixed rate instruments</u>

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, in respect of the fixed rate instruments, a change in interest rates at the reporting date would not affect profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(b) Interest rate risk (Continued)

Sensitivity analysis for variable rate instruments

If the interest rates had been 50 basis point higher and all other variables held constant, the Group's and the Company's loss for the financial year will increase by:

	Group		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Loss for the financial year	16	15	-	-

(ii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions at a short notice. At the end of the reporting period, assets held by the Group and the Company for managing liquidity risk included cash and bank balances as disclosed in Note 10.

Management monitors rolling forecasts of the Group's and the Company's liquidity reserve comprises borrowings (Note 12) and cash and bank balances (Note 10) on the basis of expected cash flow. This is generally carried out at local level in the operating companies of the Group in accordance with practice and limits set by the Group. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these; monitoring liquidity ratios and maintaining debt financing plans.

The table below analyses the Group's and the Company's non-derivative financial liabilities into relevant maturity groupings based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group and the Company can be required to pay and includes both interest and principal cash flows.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(ii) Liquidity risk (Continued)

Group	Weighted average effective interest rate	On demand or not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
2019	%	$'000	$'000	$'000	$'000
Trade and other payables		25,041	-	-	25,041
Borrowings	0.05% - 8.14%	10,988	873	1,247	13,108
Lease liabilities	3.28% - 5.25%	341	253	-	594
Derivative financial instruments		3	-	-	3
		36,373	1,126	1,247	38,746
2018					
Trade and other payables		32,955	-	-	32,955
Borrowings	2.48% - 7.95%	8,356	1,093	109	9,558
		41,311	1,093	109	42,513

Company	On demand or within 1 year
	$'000
2019	
Trade and other payables	1,392
Borrowings	5,349
Financial guarantee contracts (Note 25(i))	5,258
	11,999
2018	
Trade and other payables	1,981
Borrowings	4,175
Financial guarantee contracts (Note 25(i))	2,242
	8,398

Trade and other payables of the Group are non-interest bearing and normally settled on a range of 30 to 90 days terms. Trade and other payables of the Company including balances owing to subsidiaries that are repayable on demand. These are included as liabilities payable on demand or within one year.

For financial guarantees issued to the banks by the Company, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called. Out of this amount, an amount of $1,050,000 (2018: $286,000) relates to instalments due in 2 - 5 years based on the contractual payment schedule of the loans.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The major classes of financial assets of the Group and of the Company are cash and bank balances and trade and other receivables. Cash and bank balances are placed with reputable financial institutions. Therefore, credit risk arises mainly from the inability of its customers to make payments when due. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit history, and obtaining sufficient security where appropriate to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties.

As the Group and the Company do not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented in the statements of financial position, except for guarantees as disclosed in Note 25(i).

Credit risk concentration included in the Group’s trade receivables (Note 9) as at 31 December is:

- 2 debtors (2018: 3 debtors) in PRC in environmental engineering business that individually represented 9% to 22% (2018: 7% - 10%) of the Group’s trade receivables, as part of “EE Systems” segment; and

- 5 debtors (2018: 3 debtors) in Malaysia that individually represented 3% - 4% (2018: 3% - 14%) of the Group’s trade receivables, as part of “EE Systems” and “Trading System” segment.

Credit risk concentration included in the Group’s contract assets (Note 9) as at 31 December 2019 is 6 debtors (2018: 3 debtors) in PRC in environmental engineering business that individually represented 7% - 26% (2018: 9% - 11%) of the Group’s contract assets, as part of “EE Systems” segment.

As at 31 December 2019, cash and cash equivalents placed with 4 banks (2018: 4 banks) individually represented 12% - 19% (2018: 10% - 24%) of the Group’s cash and cash equivalents.

Other than disclosed above and in Note 9(ii), there is no other credit risk concentration in financial assets of the Group and Company.

The Group manages credit loss based on Expected Credit Losses (ECL) model.

(a) Trade receivables and contract assets

The Group’s exposure to credit risk from trade receivables are linked to the individual characteristics of each customer, and also influenced by the default risk specific to the industry or country brought about by the general economic condition.

To measure the ECL allowance, trade receivables and contract assets have been grouped together according to the main geographical areas in which the Group operates which has higher influence on credit risks than the reportable segments. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same type of contracts. The Group has therefore concluded that the expected loss rates for the trade receivables are a reasonable approximation of the loss rates for the contract assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(a) Trade receivables and contract assets (Continued)

Summarised below is the information about the credit risk exposure on the Group's trade receivables and contract assets grouped by geographical area:

	Contract assets		Trade receivables	
	Gross carrying amount $'000	ECL $'000	Gross carrying amount $'000	ECL $'000
Group – As at 31 December 2019				
Singapore	3,428	-	2,588	10
PRC	14,736	2,238	22,251	1,177
Malaysia and Taiwan	401	6	8,944	709
Vietnam	-	-	342	-
	18,565	2,244	34,125	1,896
Group – As at 31 December 2018				
Singapore	2,307	-	816	57
PRC	33,498	414	9,185	520
Malaysia and Taiwan	1,290	3	10,374	607
	37,095	417	20,375	1,184

<u>Singapore – 31 December 2019</u>

The Group has applied the simplified approach to measure the lifetime expected credit losses for its trade receivables.

To measure the expected credit losses, trade receivables has been grouped based on credit risk characteristics and days past due.

The expected credit loss rates are based on the payment profile of sales and the corresponding historical credit losses experience. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(a) Trade receivables and contract assets (Continued)

Singapore – 31 December 2019 (Continued)

On that basis, the loss allowance as at 31 December 2019 was determined as follows:

	Contract assets	Trade receivables						
			Days past due					
Group	Current	Current	< 30 days	31 – 60 days	61 – 90 days	91 – 120 days (credit-impaired)	Individually impaired	Total
31 December 2019								
Expected credit loss rate (%)	0.00%	0.23%-1.98%	0.64%-2.33%	3.11%-10.02%	10.71%-26.11%	100.00%	100.00%	
Gross carrying amount ($'000)	3,428 *	2,343 *	162	77	-	6	-	2,588
Expected credit loss ($'000)	-	1	1	2	-	6	-	10

* Including an amount owing from a municipal customer of $5,120,000, with a very low credit risk.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(a) Trade receivables and contract assets (Continued)

Singapore – 31 December 2018

The Group computes the expected credit loss using probability of default from external rating agencies taking into account the nature of counterparty and the industry the customers operates in, as disclosed below. Management has assessed the appropriateness of the rate based on the payment patterns and historical loss rates.

	Group			
	Gross carrying amount		Probability of default rate	ECL allowance on trade receivables
	Contract asset	Trade receivables		
	$'000	$'000	%	$'000
As at 31 December 2018				
Industrial customer's industry:				
- Technology hardware, storage and peripherals	18	291	1.09	5
- Construction & engineering	267	367	4.26	44
- Industrial material	-	81	4.27	3
- Others [(i)]	21	24	4.27-6.97	1
	306	763		53
Municipal: Statutory boards of the Singapore Government	2,001	49	0.00	-
	2,307	812		53
Trade receivables subjected to specific impairment	-	4		4
ECL allowance for third parties	2,307	816		57

[(i)] Others include technology distributors, interactive media and services, hotel, resort and cruise lines, environmental and facilities services, healthcare services, semiconductor and equipment and soft drink industries.

Vietnam

The Group computes the expected credit loss using probability of default from external rating agencies taking into account the nature of counterparty and the industry the customers operates in. Management has assessed the appropriateness of the rate based on the payment patterns and historical loss rates.

The management assess that there are no material ECL on trade receivables.

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(a) Trade receivables and contract assets (Continued)

China

Due to the inherent nature of the construction industry in the China, the payment by the customers may be prolonged. The expected loss rates are based on the payment profiles of sales over a period of 5 years before 31 December and the corresponding historical credit losses experience within this period. The historical rates have been adjusted for forward-looking factors for the economic environment. On that basis, the loss allowance as at 31 December was determined via a provision matrix as follow for both trade receivables and contract assets:

Group	Contract assets and trade receivables							
		Days past due						
				← Credit-impaired		→		
	Current	< 1 year	1 – 2 years	2 – 3 years	3 – 4 years	> 5 years	Individually impaired	Total
31 December 2019								
Expected credit loss rate (%)	1.20%	4.18%	9.90%	14.00%	23.24%	45.05%	100.00%	
Gross carrying amount ($'000)	21,925	4,765	4,333	2,343	1,777	111	1,733	36,987
Expected credit loss ($'000)	263	199	429	328	413	50	1,733	3,415
31 December 2018								
Expected credit loss rate (%)	1.24%	3.83%	8.01%	9.77%	13.15%	69.45%	100%	
Gross carrying amount ($'000)	36,688	4,756	611	304	117	10	197	42,683
Expected credit loss ($'000)	454	182	49	30	15	7	197	934

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(a) Trade receivables contract assets (Continued)

Malaysia and Taiwan

The expected loss rates are based on the payment profiles of sales over the period of 1 year. The management have concluded that a 10% loss rate for customers was expected for trade receivables that are 90 days above credit terms based on past historical credit loss experiences. In assessing the expected loss rate, the management considers forward-looking factors specific to those customers and the economic outlook. On that basis, the loss allowance as at 31 December was determined via a provision matrix as follow for both trade receivables and contract assets.

	Contract assets	Trade receivables						
			Days past due					
Group	Current	Current	< 30 days	30 – 60 days	61 – 90 days	91 – 120 days (credit-impaired)	Individually impaired	Total
31 December 2019								
Expected credit loss rate (%)	0.29% - 3.65%	0.01% - 5.46%	0.01% - 5.46%	0.07% - 5.46%	1.45% - 5.46%	10.00%	100.00%	
Gross carrying amount ($'000)	401	3,616	1,981	2,163	226	429	529	8,944
Expected credit loss ($'000)	6	47	21	11	36	65	529	709
31 December 2018								
Expected credit loss rate (%)	0.19%	0.34%	0.73%	2.49%	4.74%	10%	100%	
Gross carrying amount ($'000)	1,290	5,106	2,541	951	319	1,015	442	10,374
Expected credit loss ($'000)	3	17	19	24	13	92	442	607

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(a) Trade receivables contract assets (Continued)

When the receivables are determined to have no reasonable prospect of recovery, the Group write-off the balances while continuing to engage in enforcement activity to recover the balances.

The movement of the life-time ECL on trade receivables and contract assets are as follows:

Group	Contract assets	Trade receivables	Total
	$'000	$'000	$'000
2019			
Balance at 1 January 2019	417	1,184	1,601
ECL allowance recognised / (write-back) during the year			
Changes in ECL allowance	1,882	1,242	3,124
Reversal of unutilised amount	-	(69)	(69)
	1,882	1,173	3,055
Written off	-	(428)	(428)
Currency translation differences	(55)	(33)	(88)
Balance at 31 December 2019 (Note 9)	2,244	1,896	4,140
2018			
Balance at 1 January 2018	95	1,019	1,114
ECL allowance recognised / (write-back) during the year			
New assets originated	334	412	746
Reversal of unutilised amount	(4)	(236)	(240)
	330	176	506
Currency translation differences	(8)	(11)	(19)
Balance at 31 December 2018 (Note 9)	417	1,184	1,601

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(a) Trade receivables and contract assets (Continued)

Group	Non-credit impaired	Credit impaired	Total
	$'000	$'000	$'000
2019			
Balance at 1 January 2019	866	735	1,601
ECL allowance recognised / (write-back) during the year			
Changes in ECL allowance	1,054	2,070	3,124
Reversal of unutilised amount	(69)	-	(69)
	985	2,070	3,055
Written off	-	(428)	(428)
Currency translation differences	(44)	(44)	(88)
Balance at 31 December 2019 (Note 9)	1,807	2,333	4,140
2018			
Balance at 1 January 2018	404	710	1,114
ECL allowance recognised / (write-back) during the year			
New assets originated	716	30	746
Reversal of unutilised amount	(240)	-	(240)
	476	30	506
Currency translation differences	(14)	(5)	(19)
Balance at 31 December 2018 (Note 9)	866	735	1,601

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(b) Other receivables, including amounts owning by subsidiaries and financial guarantees to subsidiaries

For the purpose of impairment assessment, general 3-stages approach is applied in the ECL assessment of financial assets other than trade receivables and contract assets. The management is of view that determining whether there has been a significant increase in credit risk since initial recognition would require undue cost or effort, and hence life-time ECL is recognised as at each reporting date until derecognition.

Summarised below is the information about the credit risk exposure on the other receivables and deposits:

	Group		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Non-current				
Other receivables – third party	-	613	-	-
Current				
Other receivables:				
- Third parties	2,181	1,424	1	-
- Subsidiaries (non-trade)	-	-	24,866	23,029
Refundable deposits	4,227	4,458	1,349	1,347
Staff loans	820	441	-	-
Gross carrying amount	7,228	6,936	26,216	24,376
Less: ECL allowance – credit impaired	(1,774)	(1,107)	(10,756)	(9,327)
	5,454	5,829	15,460	15,049

- The Group has assessed that its staff have the financial capacity as well as the ability to repay their loan in the near future and accordingly determined that the amount of the allowance on staff loan was immaterial.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(b) Other receivables, including amounts owning by subsidiaries and financial guarantees to subsidiaries (Continued)

The movement of the life-time ECL on other receivables are as follows:

	Group	Company
	$'000	$'000
Balance at 1 January 2019	1,107	9,327
ECL allowance recognised during the year		
- Changes in ECL allowance	717	1,429
- Reversal of unutilised amount	(1)	-
	716	1,429
Currency translation differences	(49)	-
Balance at 31 December 2019 (Note 9)	1,774	10,756

	Group	Company
	$'000	$'000
Balance at 1 January 2018	1,117	8,869
ECL allowance recognised during the year		
- New assets originated	1	458
- Reversal of unutilised amount	(1)	-
	-	458
Currency translation differences	(10)	-
Balance at 31 December 2018 (Note 9)	1,107	9,327

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

(b) Other receivables, including amounts owning by subsidiaries and financial guarantees to subsidiaries (Continued)

The Group and the Company considers the above ECL to be Stage 3 ECL (credit impaired) considering that:

- Bankruptcy of the former subsidiary included in other receivables of the Group (Note 9(i)).
- Remaining other receivables of the Group which were fully provided had been overdue more than 1 year.
- Weak financial position of subsidiaries.

In measuring the ECL allowance on the remaining carrying amounts:

- The Group determined that the amount of the allowance on its deposits are immaterial, in view of the nature of the deposits, the progress of those transactions and the manner of recovery, as disclosed in Note 9.
- The Group has determined that the amount of the allowance on staff loan are immaterial, in view of the assessment that its staff have the financial capacity as well as the ability to repay their loan in the near future.

(c) Cash and bank balances

Bank deposits are placed with reputable financial institutions with high credit-ratings assigned by international credit-rating agencies. Impairment on cash and cash equivalents has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the financial institutions. The amount of the allowance on cash and cash equivalents are immaterial.

(iv) Financial instruments by category

	Group		Company	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Financial assets at amortised cost:				
- Trade receivables	32,229	19,191	-	-
- Other receivables	5,454	5,829	15,460	15,049
- Contract assets	16,321	36,678	-	-
- Cash and bank balances	27,420	27,925	6,341	13,577
	81,424	89,623	21,801	28,626
Financial liabilities at amortised cost	37,291	42,156	6,741	5,981
Financial liabilities at FVPL	3	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. FINANCIAL INSTRUMENTS (Continued)

Capital risk management objectives and policies

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, obtain new borrowings or sell assets to reduce borrowings.

Management monitors capital based on gearing ratio. The Group is also required by the banks to maintain a gearing ratio of not exceeding 2.5 times (2018: 1.7 times). The Group's strategy, which remains unchanged since 2013 is to maintain a gearing ratio below 1.7 times.

The gearing ratio is calculated as total debts (borrowings) divided by total tangible net worth. Total tangible net worth is calculated as total equity less non-controlling interests and intangible assets.

	Group	
	2019	2018
	$'000	$'000
Total debts (Note 12)	12,250	9,201
Total tangible net worth	36,291	43,181
Gearing ratio	0.34 times	0.21 times

The Group is in compliance with all externally imposed capital requirements for the financial years ended 31 December 2019 and 31 December 2018.

29. FAIR VALUES OF ASSETS AND LIABILITIES

(i) Fair value of financial instruments that are carried at fair value

Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29. FAIR VALUES OF ASSETS AND LIABILITIES (Continued)

(i) Fair value of financial instruments that are carried at fair value (Continued)

Fair value hierarchy (Continued)

The following table shows an analysis of financial instruments measured at fair value by the level of fair value hierarchy:

	Group			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
2019				
Financial liability				
Derivative financial instrument (Note 14)	-	3	-	3

Determination of fair value

The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and make assumptions that are based on market conditions existing at each reporting date.

The fair value of the derivative financial instrument is determined by reference to current forward prices for contracts with similar maturity profiles.

There has been no transfer from Level 1 and Level 2 to Level 3 during the financial year ended 31 December 2019. The Group had no financial assets or liabilities carried at fair value in 2018.

The Company had no financial assets or liabilities carried at fair value in 2019 and 2018.

(ii) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The carrying amounts of financial assets and financial liabilities reported on the reporting date are reasonable approximation of their fair values, either due to their short-term nature or that they are floating rate instruments that are repriced to market interest rate on or near the reporting date.

Non-current interest-bearing amount owing from a third party included in other receivables (Note 9(i)) as at 31 December 2018, which carrying amount approximate fair value as the contractual interest rate reflects the market rate as at the reporting date.

(iii) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

At the reporting date, there are no financial instruments in this category.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30. SUBSEQUENT EVENT

General offer by Mr. Wang Zhi

On 5 May 2020, Mr. Wang Zhi, a director (the "Offeror") has purchased from Wuhan Liankai Investment Co. Ltd (the “Seller") an aggregate of 13,387,118 ordinary shares (the "Sale Shares") in the capital of the Company, for an aggregate consideration of $2,275,810.06 (the "Consideration"), being $0.17 for each Sale Share (the "Acquisition").

As a consequence of the Acquisition, the Offeror is required to make a mandatory general offer for all the Shares (excluding treasury shares and other than those already owned, controlled and agreed to be acquired by the Offeror) (the "Offer Shares"), in accordance with Section 139 of the Securities and Futures Act, Chapter 289 of Singapore and Rule 14 of the Singapore Code on Take-overs and Mergers (the "Code").

The Offeror has on 5 May 2020, made an offer to the remaining shareholders, at the price of S$0.17 per share. The Offer will remain open for acceptances by Shareholders for a period of at least 28 days, which to be end of 23 June 2020.

COVID-19 outbreak

Since January 2020, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long periods of time.

The Group is expecting an adverse impact on the Group’s financial performance for the financial year ending 31 December 2020 as Malaysia is accounted for about 40% of the Group’s revenue as the country has been under a movement control order from March to May 2020.

PV Vacuum Engineering Pte. Ltd., one of the Group’s subsidiaries in Singapore which may experience some effects from the COVID-19 outbreak as the subsidiary relies heavily on procurement of materials for installation from China. There will likely be delays in logistics, and therefore, implementation of the subsidiary’s projects within the year.

Wuhan Kaidi Water Services Co., Ltd., another subsidiary of the Group in China, which typically contributes about 50% of the revenue, would likely be adversely affected by the outbreak of COVID-19. The subsidiary is based in Wuhan, which was identified as the epicentre of the outbreak, and the city has been under lock down from January 2020 and only resumed operation in April 2020.

The Group has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 31 December 2019 have not been adjusted to reflect their impact. Although the Group cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it will have an adverse effect on the Group’s results of future operations, financial position, liquidity and impairment assessment in year 2020.