

**CIRCULAR DATED 23 FEBRUARY 2018**

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

**If you are in any doubt as to the course of action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.**

Unless otherwise defined, capitalised terms appearing on the cover of this Circular bear the same meanings as defined in this Circular.

If you have sold or transferred all your shares in the capital of Darco Water Technologies Limited (the “**Company**”), you should immediately forward this Circular and the enclosed Notice of Extraordinary General Meeting and Proxy Form to the purchaser, 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.

The Singapore Stock Exchange and Securities Trading Limited (the “**SGX-ST**”) assumes no responsibility for the contents of this Circular, including the correctness of any statements or opinions made or reports contained in this Circular. Approval in-principle granted by the SGX-ST for the listing and quotation of the Consideration Shares, the Wang Zhi Placement Shares, the Sofos Placement Shares and the RS Placement Shares on the SGX-ST is not to be taken as an indication of the merits of the Group, the Target, the Shares or the Consideration Shares, the Wang Zhi Placement Shares, the Sofos Placement Shares and the RS Placement Shares.



**SOLUTIONS TO WATER & WASTE  
DARCO WATER TECHNOLOGIES LIMITED**

(Incorporated in the Republic of Singapore)  
(Company Registration Number: 200106732C)

**CIRCULAR TO SHAREHOLDERS**

In relation to

- (A) PROPOSED ACQUISITION OF 12% EQUITY INTEREST IN THE REGISTERED CAPITAL OF WUHAN KAIDI WATER SERVICES CO., LTD. (武汉凯迪水务有限公司);**
- (B) PROPOSED PLACEMENT OF UP TO 30,251,151 NEW SHARES IN THE CAPITAL OF THE COMPANY TO ROBERT WANG @ WANG ZHI; AND**
- (C) PROPOSED PLACEMENT OF 1,500,000 NEW SHARES IN THE CAPITAL OF THE COMPANY TO STONE ROBERT ALEXANDER**

**IMPORTANT DATES AND TIMES**

Last date and time for lodgement of Proxy Form	:	10 March 2018 at 2.00 p.m.
Date and time of Extraordinary General Meeting	:	12 March 2018 at 2.00 p.m.
Place of Extraordinary General Meeting	:	Six Battery Road, #10-01 Singapore 049909



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## DEFINITIONS

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In this Circular, the following definitions shall apply throughout unless the context otherwise requires or otherwise stated:–

<b>“Acquisition Completion”</b>	:	The completion of the Proposed Acquisition pursuant to the SPA
<b>“Acquisition Conditions Precedent”</b>	:	Has the meaning ascribed to it in paragraph 2.3.3 of this Circular
<b>“Acquisition Consideration”</b>	:	Has the meaning ascribed to it in paragraph 2.3.2 of this Circular
<b>“Asset Injection”</b>	:	Has the meaning ascribed to it in paragraph 3.2.2 of this Circular
<b>“Audited FY2016 Results”</b>	:	Has the meaning ascribed to it in paragraph 2.4.2 of this Circular
<b>“Board”</b>	:	The board of Directors of the Company
<b>“CDP”</b>	:	The Central Depository (Pte) Limited
<b>“Circular”</b>	:	This circular to Shareholders dated 23 February 2018
<b>“Code”</b>	:	The Singapore Code on Takeovers and Mergers, and all practice notes, rules and guidelines thereunder, as may from time to time be issued or amended
<b>“Companies Act”</b>	:	The Companies Act, Chapter 50 of Singapore, as may be amended, modified or supplemented from time to time
<b>“Company”</b>	:	Darco Water Technologies Limited
<b>“Consideration Shares”</b>	:	Has the meaning ascribed to it in paragraph 2.3.2 of this Circular
<b>“Deed of Undertaking”</b>	:	Has the meaning ascribed to it in paragraph 3.2.2 of this Circular
<b>“Directors”</b>	:	The directors of the Company as at the date of this Circular
<b>“EGM”</b>	:	The extraordinary general meeting of the Company to be held at 2.00 p.m. on 12 March 2018 at Six Battery Road, #10-01, Singapore 049909, notice of which is set out on pages N-1 to N-2 of this Circular
<b>“Enlarged Share Capital”</b>	:	Has the meaning ascribed to it in paragraph 3.1.1

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## DEFINITIONS

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<b>“Existing Share Capital”</b>	:	The existing share capital of the Company as at the Latest Practicable Date comprising 60,826,601 Shares (excluding treasury shares)
<b>“EPS”</b>	:	Earnings per Share
<b>“12% Equity Interest”</b>	:	12% of the total equity interest in the registered capital of the Target to be acquired by the Company pursuant to the SPA
<b>“FY2016”</b>	:	Financial year ended on 31 December 2016
<b>“Group”</b>	:	The Company together with its subsidiaries
<b>“Illustrative Exchange Rate”</b>	:	Has the meaning ascribed to it in paragraph 2.1.3
<b>“Jilead”</b>	:	Jilead Technology Co., Ltd.
<b>“Latest Practicable Date”</b>	:	13 February 2018 being the latest practicable date prior to the printing of this Circular
<b>“Listing Approval”</b>	:	The approval in-principle for the listing of and quotation for the Consideration Shares, the Wang Zhi Placement Shares, the Sofos Placement Shares and the RS Placement Shares on the Mainboard of the SGX-ST
<b>“Listing Rules”</b>	:	The Listing Manual (Section A: Rules of Mainboard) of the SGX-ST, as amended or modified from time to time
<b>“Loan”</b>	:	Has the meaning ascribed to it in paragraph 3.2.3 of this Circular
<b>“Loan Agreement”</b>	:	Has the meaning ascribed to it in paragraph 3.2.3 of this Circular
<b>“MLD”</b>	:	Million litres per day
<b>“Notice of EGM”</b>	:	The notice of the EGM as set out on pages N-1 to N-2 of this Circular
<b>“Notice of Rejection”</b>	:	Has the meaning ascribed to it in paragraph 3.2.2 of this Circular
<b>“NTA”</b>	:	Net tangible assets
<b>“Ordinary Resolutions”</b>	:	The ordinary resolutions as set out in the Notice of EGM
<b>“PRC”</b>	:	The People’s Republic of China

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## DEFINITIONS

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<b>“Proposed Acquisition”</b>	:	Has the meaning ascribed to it in paragraph 1.1 of this Circular
<b>“Proposed Corporate Actions”</b>	:	Has the meaning ascribed to it in paragraph 3.1.1 of this Circular
<b>“Record Date”</b>	:	Has the meaning ascribed to it in paragraph 3.1.3 of this Circular
<b>“RS”</b>	:	Stone Robert Alexander
<b>“RS Conditions Precedent”</b>	:	Has the meaning ascribed to it in paragraph 4.2.1 of the Circular
<b>“RS Placement”</b>	:	Placement of the RS Placement Shares to be placed to RS pursuant to the RS Placement Agreement
<b>“RS Placement Agreement”</b>	:	The placement agreement dated 15 November 2017 between the Company and RS
<b>“RS Placement Consideration”</b>	:	Has the meaning ascribed to it in paragraph 4.1.3 of the Circular
<b>“RS Placement Net Proceeds”</b>	:	Has the meaning ascribed to it in paragraph 4.5.1 of the Circular
<b>“RS Placement Price”</b>	:	Has the meaning ascribed to it in paragraph 4.1.1 of the Circular
<b>“RS Placement Shares”</b>	:	1,500,000 new Shares to be issued to RS pursuant to the RS Placement Agreement
<b>“Securities Account”</b>	:	The securities account(s) maintained by a Depositor with CDP, but does not include a securities sub-account maintained with a Depository Agent
<b>“Securities and Futures Act”</b>	:	The Securities and Futures Act, Chapter 289 of Singapore, as may be amended, modified or supplemented from time to time
<b>“SGX-ST”</b>	:	Singapore Exchange Securities Trading Limited
<b>“SIC”</b>	:	Securities Industry Council
<b>“Shareholder Proxy Form”</b>	:	Has the meaning ascribed to it in paragraph 13.1 of this Circular

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## DEFINITIONS

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<b>“Shareholders”</b>	:	Registered holders of Shares except that where the registered holder is CDP, the term <b>“Shareholders”</b> shall, in relation to such Shares and where the context admits, mean the persons named as Depositors in the Depository Register and whose Securities Accounts maintained with CDP are credited with the Shares
<b>“Shares”</b>	:	Ordinary shares in the share capital of the Company
<b>“Sofos Placement”</b>	:	The placement of 3,500,000 Shares to Sofos Infrastructure Investment Fund SPC pursuant to the placement agreement between the Company and Sofos Investment Fund SPC dated 13 November 2017, as announced by the Company on the same day
<b>“Sofos Placement Shares”</b>	:	3,500,000 new Shares to be placed to Sofos Infrastructure Investment Fund SPC pursuant to the placement agreement dated 13 November 2017 between the Company and Sofos Infrastructure Investment Fund SPC
<b>“SPA”</b>	:	The sale and purchase agreement for the acquisition of 12% Equity Interest in the registered capital of the Target entered into between the Company and the Vendor on 16 June 2017
<b>“Substantial Shareholder”</b>	:	A shareholder who has an interest in five per cent. (5%) or more of the total issued share capital of the Company
<b>“Vendor”</b>	:	Hong Kong Meidi Investments Holdings Co., Ltd. (香港美地投資(控股)有限公司)
<b>“VWAP”</b>	:	Volume weighted average price
<b>“Wah Lee”</b>	:	Wah Lee Industrial Corp.
<b>“Wang Zhi”</b>	:	Robert Wang @ Wang Zhi
<b>“Wang Zhi Placement”</b>	:	The placement of Wang Zhi Placement Shares to Wang Zhi pursuant to the Wang Zhi Placement Agreement
<b>“Wang Zhi Conditions Precedent”</b>	:	Has the meaning ascribed to it in paragraph 3.2.1 of this Circular
<b>“Wang Zhi Placement Agreement”</b>	:	The placement agreement dated 20 October 2017 between the Company and Wang Zhi
<b>“Wang Zhi Placement Consideration”</b>	:	Has the meaning ascribed to it in paragraph 3.1.4 of this Circular

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## DEFINITIONS

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<b>“Wang Zhi Placement Long Stop Date”</b>	:	Has the meaning ascribed to it in paragraph 3.1.4 of this Circular
<b>“Wang Zhi Placement Net Proceeds”</b>	:	Has the meaning ascribed to it in paragraph 3.5.1 of this Circular
<b>“Wang Zhi Placement Price”</b>	:	Has the meaning ascribed to it in paragraph 3.1.1 of this Circular
<b>“Wang Zhi Placement Shares”</b>	:	A minimum of 23,987,726 and maximum of 30,251,151 new Shares to be placed to Wang Zhi pursuant to the Wang Zhi Placement Agreement
<b>“Water Treatment Asset”</b>	:	Has the meaning ascribed to it in paragraph 3.2.2 of this Circular
<b>“S\$” and “SG cents”</b>	:	Singapore dollars and cents, respectively
<b>“RMB”</b>	:	Renminbi
<b>“US\$”</b>	:	United States dollars
<b>“%” or “per cent.”</b>	:	percentage or per centum

The terms **“Depositor”**, **“Depository”**, **“Depository Agent”** and **“Depository Register”** shall have the meanings ascribed to them respectively in Section 81SF of the Securities and Futures Act.

The term **“subsidiary”** shall have the meaning ascribed to it in Section 5 of the Companies Act.

Words importing the singular shall, where applicable, include the plural and vice versa, and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa.

References to persons shall include corporations.

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

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Companies Act, the Listing Manual, or any relevant laws of the Republic of Singapore or any statutory modification thereof and used in this Circular shall have the same meaning assigned to it under the Companies Act, the Listing Manual, or any relevant laws of the Republic of Singapore or any statutory modification thereof, as the case may be.

Any reference to a time of a day in this Circular shall be a reference to Singapore time unless otherwise stated.

Any discrepancies in the tables in this Circular between the listed amounts and the totals thereof are due to rounding.



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## LETTER TO SHAREHOLDERS

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### DARCO WATER TECHNOLOGIES LIMITED

(Incorporated in the Republic of Singapore)  
(Company Registration Number: 200106732C)

**Board of Directors:**

Thye Kim Meng (*Chairman, Managing Director and Chief Executive Officer*)  
Heather Tan Chern Ling (*Executive Director*)  
Wang Yaoyu (*Executive Director*)  
Tay Lee Chye Lester (*Lead Independent Director*)  
Oh Chee Sian (*Independent Director*)  
Tay Von Kian (*Independent Director*)

**Registered Office:**

21 Marsiling Industrial  
Estate Road 9  
#01-03  
Singapore 739175

23 February 2018

**To: The Shareholders of Darco Water Technologies Limited**

Dear Sir/Madam,

- (A) **PROPOSED ACQUISITION OF 12% EQUITY INTEREST IN THE REGISTERED CAPITAL OF WUHAN KAIDI WATER SERVICES CO., LTD. (武汉凯迪水务有限公司)**
- (B) **PROPOSED PLACEMENT OF UP TO 30,251,151 NEW SHARES IN THE CAPITAL OF THE COMPANY TO ROBERT WANG @ WANG ZHI**
- (C) **PROPOSED PLACEMENT OF 1,500,000 NEW SHARES IN THE CAPITAL OF THE COMPANY TO STONE ROBERT ALEXANDER**

#### 1. INTRODUCTION

##### 1.1 Background

- 1.1.1 The Company had on 16 June 2017 announced that it has entered into the SPA with the Vendor in respect of the proposed acquisition by the Company of 12% Equity Interest in the registered capital of the Target on the terms of the SPA (the “**Proposed Acquisition**”).
- 1.1.2 The Company had on 23 October 2017 announced that it has entered into the Wang Zhi Placement Agreement with Wang Zhi in respect of the proposed placement of up to 30,251,151 new Shares representing 29.5% of the Enlarged Share Capital.
- 1.1.3 The Company had on 13 November 2017 announced that it has entered into a placement agreement with Sofos Infrastructure Investment Fund SPC in respect of the proposed placement of 3,500,000 new Shares to Sofos Infrastructure Investment Fund SPC. Such 3,500,000 new Shares will be issued under the general mandate of the Company approved by the Shareholders on 28 April 2017. For more information on the Sofos Placement, please refer to the announcement of the Company dated 13 November 2017.
- 1.1.4 The Company had also announced on 15 November 2017 that it has entered into the RS Placement Agreement with RS in respect of the proposed placement of 1,500,000 new Shares to RS.

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## LETTER TO SHAREHOLDERS

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- 1.1.5 The timing of each of the Proposed Acquisition, the Wang Zhi Placement, the Sofos Placement and the RS Placement has been streamlined so that the Company can seek Shareholders' approval in respect thereof at this EGM, as set out in paragraph 1.2 below.

### 1.2 Purpose of Circular

- 1.2.1 The purpose of this Circular is to provide Shareholders with relevant information relating to the Proposed Acquisition, and to seek Shareholders' approval for the following:

- (a) the proposed issue and allotment of the Consideration Shares to the Vendor;
- (b) the proposed issue and allotment of the Wang Zhi Placement Shares to Wang Zhi;  
and
- (c) the proposed issue and allotment of the RS Placement Shares to RS.

## 2. THE PROPOSED ACQUISITION

### 2.1 Information on the Target

- 2.1.1 The Target is a water treatment and management specialist company incorporated on 13 February 2007 in the PRC. Its business involves the provision of comprehensive and integrated engineering solutions for water purification, water supply and wastewater treatment systems. These solutions include the designing, procurement, installation, commissioning and management of water purification, water supply and wastewater treatment systems and facilities.
- 2.1.2 The core management and engineering team of the Target has 23 years of track record of supplying water and waste treatment systems and has carried out over 600 projects to-date. The Target presently has 28 ongoing projects in the PRC covering 13 provinces in the PRC, and has 79 staffs. This includes the construction of a seawater desalination system for a 2\*600MW power plant for Huaneng Yantai. The total contractual value of the PRC projects amount to approximately RMB386.38 million. Apart from projects in the PRC, the Target also has six (6) ongoing overseas projects in countries such as Indonesia, Turkey and Mongolia. The total contractual value of these overseas projects amounts to approximately RMB60.59 million.
- 2.1.3 Based on the audited financial results of the Target for the FY2016, the net profits of the Target for the full year ended 31 December 2016 was RMB11,052,000 (or approximately S\$2,304,000 based on the exchange rate of S\$1: RMB4.7959). As such, the net profits attributable to the 12% Equity Interest amounted to RMB1,326,000 (or approximately S\$276,000 based on the last audited exchange rate of S\$1: RMB4.7959 retrieved from [www.oanda.com](http://www.oanda.com) on 31 December 2016 (the "**Illustrative Exchange Rate**").

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## LETTER TO SHAREHOLDERS

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- 2.1.4 Based on the audited financial results of the Target for FY2016, the net tangible asset value of the 12% Equity Interest is approximately RMB6,877,000 (or approximately S\$1,434,000 based on the Illustrative Exchange Rate).
- 2.1.5 As at the Latest Practicable Date, the Company holds 60% equity interest in the Target. The remaining equity interests in the Target are held by the Vendor (12%), Wuhan Liankai Investment Co., Ltd. (13%) and Zhang Zhengda (15%). Upon completion of the Proposed Acquisition, the Company will hold 72% equity interest in the Target.
- 2.1.6 For reference, the Target has contributed S\$27.6 million revenue to the Group in FY2016, which is approximately 45% of the Group's revenue for FY2016. The Target's audited key financial figures for the past 3 financial years and its latest unaudited balance sheet are set out in **Appendix B** of this Circular.

### 2.2 Information on the Vendor

- 2.2.1 The Vendor is an investment holding company incorporated in Hong Kong with interests in property and infrastructure development. The director of the Vendor is Mr Chang Yu-Wen. As at the Latest Practicable Date, Wah Lee and Jilead own approximately 80% and 20% of the Vendor's issued share capital respectively.
- 2.2.2 Wah Lee is a company incorporated in Taiwan, and is primarily engaged in the development and provision of industrial materials. It is listed on the Taiwan Stock Exchange Corporate with diversified shareholders. Its directors are Chang Ray-Ching, Chen Chun-Yin, Lin Chi-Hai, Chang Tsuen-Hsien, Lin Shu-Chen, Yeh Ching-Pin, Wang Yea-Kang, Chu Hau-Min and Shyu So-De.
- 2.2.3 Jilead is a company incorporated in Taiwan. The top 5 shareholders of Jilead are Gshine Welltech Co., Ltd., Golden Touch Industrial Corp., Great Pride Offshore Inc, Wu Chih-Ming and Chen Li-Ling. Its director is Chang Chih-Nan.
- 2.2.4 The Vendor currently holds the 12% Equity Interest in the registered capital of the Target.

### 2.3 Details of the Proposed Acquisition

- 2.3.1 Pursuant to the terms and subject to the conditions of the SPA, the Vendor shall sell to the Company and the Company shall purchase the 12% Equity Interest in the registered capital of the Target.
- 2.3.2 Consideration

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

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## LETTER TO SHAREHOLDERS

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The Vendor has confirmed that the 3,824,891 Consideration Shares are to be issued and allotted to Wah Lee and Ji Lead in the following proportions:

	<b>Number of Consideration Shares</b>	<b>% of Existing Share Capital<sup>(1)</sup></b>
Wah Lee <sup>(2)</sup>	3,059,913	5.03
Jilead <sup>(3)</sup>	764,978	1.26
<b>Total</b>	<b>3,824,891</b>	<b>6.29</b>

**Notes:**

- (1) Computed on the basis of the Existing Share Capital (the Company does not have treasury shares) as at the Latest Practicable Date.
- (2) As at the Latest Practicable Date, Wah Lee holds 4,589,869 Shares, representing approximately 7.55% of the Existing Share Capital of the Company.
- (3) As at the date of Latest Practicable Date, Jilead holds 1,147,467 Shares, representing approximately 1.89% of the Existing Share Capital of the Company.

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

Based on the VWAP of the Shares on the SGX-ST on 8 June 2017 (being the last full market day on which the Shares were traded prior to the day on which the SPA was executed as no trades were done on 9, 12, 13, 14 and 15 June 2017) of approximately S\$0.50, the issue price per Consideration Share of S\$0.50 is the same as the VWAP. There will be no actual cash outlay from the Company to the Vendors given that the Acquisition Consideration shall be entirely satisfied by way of the issuance of the Consideration Shares. The Company intends to seek specific Shareholders' approval for the issuance of the Consideration Shares at the EGM as stated in paragraph 5 of this Circular.

The Acquisition Consideration was agreed on a willing-buyer and willing-seller basis after arms' length negotiations. In arriving at the Acquisition Consideration, the Company has considered, *inter alia*, (a) the respective and combined market positions of the Company and the Target, (b) the quality of the respective assets and business conditions of the Company and the Target, (c) the respective financial positions of the Company and the Target, (d) the future benefits and synergies expected to be created as a result of the Proposed Acquisition as set out in paragraph 2.5 of this Circular, and (e) current prevailing industry and market conditions.

### 2.3.3 Conditions Precedent

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

- (a) the approval of the Shareholders at an EGM for the following matters, and such approval not having been withdrawn or revoked as at the Acquisition Completion date:
  - (i) the Proposed Acquisition; and

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## LETTER TO SHAREHOLDERS

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- (ii) the allotment and issue of the Consideration Shares by the Company to the Vendor (or such other person(s) as may be specified by the Vendor);
- (b) (if applicable) the approval of the majority of the Shareholders, who are not involved in or interested in the Proposed Acquisition, being obtained at an EGM for the whitewash resolution being a resolution approved by a majority of such Shareholders at the EGM in accordance with the requirements set out in Appendix 1 of the Code in respect of the waiver of their rights to receive a mandatory takeover offer from the Vendor and parties acting in concert with the Vendor who would incur an obligation to make a mandatory takeover offer under Rule 14 of the Code for all of the Shares not already owned by the Vendor and persons acting in concert with the Vendor as a result of the Proposed Acquisition and the transactions contemplated under the SPA, provided that the Vendor and any persons not being Shareholders who are not involved in or interested in the Proposed Acquisition abstain from voting on the whitewash resolution;
- (c) (if applicable) the grant by the SIC of a waiver (such waiver not having been withdrawn or revoked as at the date of the Acquisition Completion) to the Vendor and parties acting in concert with the Vendor, of their obligation to make a mandatory offer under Rule 14 of the Code for the Shares not held by the Vendor and their concert parties, and from having to comply with the requirements of Rule 14 of the Code upon Acquisition Completion and the allotment and issue of the Consideration Shares to the Vendor (or such other person(s) as may be specified by the Vendor) in accordance with the SPA (the “**Whitewash Waiver**”) and if such waiver is subject to any condition or restriction imposed by the SIC, such condition and/or restriction being reasonably acceptable to the Vendor and the Company;
- (d) the approval of the SGX-ST for this Circular to be issued to Shareholders in relation to the Proposed Acquisition, and if such approval is subject to any condition or restriction imposed by the SGX-ST, such condition and/or restriction being reasonably acceptable to the Vendor and the Company;
- (e) the Listing Approval in respect of the Consideration Shares having been obtained, and such approval not having been withdrawn or revoked, and if such approval is subject to any condition or restriction imposed by the SGX-ST, such condition and/or restriction being acceptable to the Company and the Vendor;
- (f) all consents and approvals required under all applicable laws and relevant agreements to give effect to the Proposed Acquisition and for the purpose of performing the Proposed Acquisition (including, without limitation, such waivers as may be necessary of terms which would otherwise constitute a default under any instrument, contract, document or agreement to which the Vendor or the Target is a party or by which the Vendor or the Target or any of their assets are bound as well as such consents as may be necessary pursuant to the relevant laws and regulations, if any, for the Vendor (or such other person(s) as may be specified by the Vendor) to be the holder of the Consideration Shares) being obtained and such consents, approvals and waivers not having been amended or revoked and remaining in full force and effect up to and including the date of Acquisition Completion and where any consent or approval is subject to conditions, such conditions being satisfactory to the Company in its sole and absolute discretion;

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## LETTER TO SHAREHOLDERS

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- (g) the Proposed Acquisition not being prohibited by, and will not result in a breach of, any statute, order, rule, regulation, directive, guideline or request promulgated by, or any judgement or decree of, any legislative, executive, judicial or regulatory body or authority in Singapore, the PRC or any other jurisdiction affecting the Target, the Company or the Vendor;
- (h) there being no changes to the business, financial conditions or operations of the Target or the Company since the date of the SPA that would in the reasonable opinion of (i) (with respect to the Target) the Company, or (ii) (with respect to the Company) the Vendor (as the case may be) be likely to have a material adverse effect on the turnover, profitability, financial position or prospects of the Target or the Company (as the case may be);
- (i) the representations, warranties and undertakings made by the Vendor and the Company contained or referred to in the SPA remaining true, accurate and correct in all respects; and
- (j) there being no event of default or potential event of default on any existing debt of the Target,

(collectively, the “**Acquisition Conditions Precedent**” and each an “**Acquisition Condition Precedent**”).

### 2.3.4 Whitewash Waiver

The Whitewash Waiver is not required as the shareholding of Wah Lee, Jilead, the Vendor and their concert parties will not exceed 30% of the Enlarged Share Capital of the Company after the issue and allotment of the Consideration Shares to Wah Lee and Jilead. Therefore, Wah Lee, Jilead, the Vendor and their concert parties will not be required under Rule 14 of the Code to make a mandatory general offer to the remaining Shareholders of the Company for their Shares.

### 2.3.5 Long Stop Date

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

### 2.3.6 Acquisition Completion

The date of the Acquisition Completion shall be a date falling five (5) business days after the date on which the Acquisition Conditions Precedent have been fulfilled or waived by the Company and/or the Vendor (as the case may be) pursuant to SPA, or such other date as the Company and the Vendor may mutually agree in writing.

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

## LETTER TO SHAREHOLDERS

### 2.4 Relative Figures under Chapter 10 of the Listing Rules

#### 2.4.1 General

Under Chapter 10 of the Listing Rules, a transaction will be classified as a discloseable transaction if any of the relative figures calculated on the bases set out in Rule 1006 of the Listing Rules exceeds 5% but does not exceed 20%. The Company has made an immediate announcement on the Proposed Acquisition in accordance with Rule 1010 of the Listing Rules on 16 June 2017.

#### 2.4.2 Relative Figures computed on the bases set out in Rule 1006 of the Listing Rules

The relative figures computed on the applicable bases set out in Rule 1006 of the Listing Rules in respect of the Proposed Acquisition, and based on the latest announced audited financial statements of the Group for the period ended 31 December 2016 (the “**Audited FY2016 Results**”), are as follows:

Listing Rule <sup>(1)</sup>	Bases	Relative Figures (%)
1006(a)	The net asset value of the assets to be disposed of, compared with the group’s net asset value. This basis is not applicable to an acquisition of assets.	Not applicable
1006(b)	The net profits/(loss) attributable to the 12% Equity Interest, compared with the Group’s net profits/(loss).	7.41 <sup>(2)</sup>
1006(c)	The aggregate value of the Consideration Shares compared with the market capitalisation of the Company.	8.77 <sup>(3)</sup>
1006(d)	The number of Consideration Shares to be issued by the Company as Acquisition Consideration compared with the number of Shares of the Company previously in issue.	6.67 <sup>(4)</sup>
1006(e)	The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the group’s proved and probable reserves. This basis is applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company, but not to an acquisition of such assets.	Not applicable

**Notes:**

- (1) Rule 1006 (a) and (e) are not relevant to the Proposed Acquisition.
- (2) Based on the audited financial results of the Target for FY2016, the net profits of the Target for the full year ended 31 December 2016 was RMB11,052,000 (or approximately S\$2,304,000 based on the Illustrative Exchange Rate). As such, the net profits attributable to the 12% Equity Interest amounted to RMB1,326,000 (approximately S\$276,000 based on the Illustrative Exchange Rate). Based on the Audited FY2016 Results, the Group had a net profit of S\$3,738,000 for the full year ended 31 December 2016.

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- (3) In accordance with Rule 1003(3) of the Listing Manual, for the purposes of computing the aggregate value of the Acquisition Consideration, which is in the form of the Consideration Shares, the higher of the following two values shall apply:
- (a) the market value of the Consideration Shares (based on the volume weighted average price of the Shares on the SGX-ST on 8 June 2017, being the last full market day on which the Shares were traded prior to the day on which the SPA was executed as no trades were done on 9, 12, 13, 14 and 15 June 2017) which amounted to S\$1,912,446; and
  - (b) the net asset value of the Consideration Shares (based on the Audited FY2016 Results) which amounted to S\$2,513,275.

The Company's market capitalisation (based on an issued share capital of 57,326,631 Shares as at the date of the announcement on 16 June 2017; the Company does not have treasury shares) and the volume weighted average price of the Shares on the SGX-ST on 8 June 2017, being the last full market day on which the Shares were traded prior to the day on which the SPA was executed) is S\$28,663,315.

- (4) Based on a total number of 3,824,891 Consideration Shares proposed to be allotted and issued to the Vendor (or such other person(s) as may be specified by the Vendor), compared with 57,326,601 Shares as at the date of the announcement on 16 June 2017 (the Company does not have treasury shares) in issue as at 16 June 2017, being the date of the SPA.

### 2.5 Rationale for The Proposed Acquisition

- 2.5.1 The Board is of the view that the Proposed Acquisition will be beneficial to and is in the best interests of the Company and the Shareholders as the Proposed Acquisition enables the Group to remain competitive in the PRC market. The Group's competitive edge in the market lies with the strengths of its management and its technology. Considering the changes in the competitive landscape of the PRC market, the Group has engaged in the Proposed Acquisition to be more localised in order to compete effectively in the PRC by relying on the Target's permits and licenses which are required to bid for projects in the PRC.
- 2.5.2 Additionally, both the Group and the Target will be able to leverage on each other's strengths, following the Acquisition Completion. The Group's strength lies in its strong track record providing water treatment solutions to the semi-conductor industry, as well as its service capabilities, having approximately 350 technicians and engineers fully engaged in helping customers operate and run systems round the clock. On the other hand, the Target has traditionally been a well-established water treatment provider in the energy and power sector, while adopting a strategy of outsourcing the manufacturing and assembly of water systems, which allows it to keep its internal workforce lean and overheads low so as to be competitive on pricing. As the Company and the Target adopt different operation methods, both the Company and Target could capitalise on each other's operational strengths to increase productivity on both ends.

### 3. THE WANG ZHI PLACEMENT

#### 3.1 The Wang Zhi Placement

- 3.1.1 The Company has on 20 October 2017 entered into the Wang Zhi Placement Agreement with Wang Zhi, pursuant to which the Company shall issue between a minimum of 23,987,726 and a maximum of 30,251,151 Wang Zhi Placement Shares, representing 29.5% of the Enlarged Share Capital, at a placement price of S\$0.65 per Wang Zhi Placement Share (the "**Wang Zhi Placement Price**") to Wang Zhi.



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The Company had at the date of the Wang Zhi Placement Agreement envisioned that the Proposed Acquisition and other corporate actions, including, further acquisition of the Target via another share swap, the Sofos Placement and the RS Placement (collectively, the “**Proposed Corporate Actions**”) may result in additional shares in the Company being issued, however, the number of shares to be issued in respect of the Proposed Corporate Actions and the time of the completion of such Proposed Corporate Actions could not be determined as at the date of the Wang Zhi Placement Agreement. As such, in respect of the Wang Zhi Placement, the Company had negotiated with Wang Zhi for a range in the number of Wang Zhi Placement Shares to take into account the possible changes in the Company’s share capital, in the event any of the Proposed Corporate Actions be completed prior to or simultaneously with the completion of the Wang Zhi Placement, such that Wang Zhi will hold 29.5% interest in the Enlarged Share Capital of the Company. At the Latest Practicable Date, the Company has intentions to acquire further equity interest in the Target via share swap with Wuhan Liankai Investment Co., Ltd., being one of the remaining shareholders of the Target. The Company will make necessary disclosures if and when it enters into a binding agreement in respect thereof.

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

The cut-off date for the determination of the number of Wang Zhi Placement Shares to be issued to Wang Zhi has been set upon the submission of the additional listing application by the Company to the SGX-ST. The Company has determined that 27,680,000 Wang Zhi Placement Shares shall be placed to Wang Zhi, representing 29.5% of the Enlarged Share Capital of the Company after the completion of Proposed Acquisition, the Wang Zhi Placement, Sofos Placement and the RS Placement, being the Proposed Corporate Actions which can proceed to complete.

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

### 3.1.2 Wang Zhi Placement Price

The Wang Zhi Placement Price of S\$0.65 represents a premium of approximately 15.0% to the VWAP of approximately S\$0.565 for trades done on the SGX-ST on 20 October 2017, being the last full market day prior to which the Wang Zhi Placement Agreement was signed.

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

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### 3.1.3 Wang Zhi Placement Shares

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

### 3.1.4 Wang Zhi Placement Consideration

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

### 3.1.5 No Placement Agent

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

### 3.1.6 Referral Agreement

The Company has entered into a referral agreement with Ms. Lee Fie Jye dated 25 May 2017 in respect of Ms. Lee Fie Jye’s referral of Wang Zhi to the Company. A referral fee of 1% of the Wang Zhi Placement Consideration received by the Company shall be paid in cash to Ms Lee Fie Jye within thirty (30) days of completion of the Wang Zhi Placement. The referral fee of 1% was decided based on negotiations with Ms Lee Fie Jye. The Company considers the referral fee of 1% of the Wang Zhi Placement Consideration to be in line with market practice of agreeing to referral fees typically ranging from 1% to 3% of placement considerations.

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

### 3.1.7 Private Placement

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

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### 3.2 Wang Zhi Conditions Precedent

3.2.1 Completion of the Wang Zhi Placement is conditional upon, among others, the following:

- (a) the trading of the issued Shares on the Mainboard of the SGX-ST not being suspended by the SGX-ST (other than a suspension on a temporary basis requested by the Company);
- (b) the issued Shares remaining listed on the Mainboard of the SGX-ST;
- (c) the specific approval of the Shareholders for the Wang Zhi Placement having been obtained (each on terms and conditions acceptable to the Company and Wang Zhi, each acting reasonably) and not being revoked or amended and being in full force and effect on the completion date;
- (d) the Listing Approval in respect of the Wang Zhi Placement Shares having been obtained (on terms and conditions acceptable to the Company and Wang Zhi, each acting reasonably) and not being revoked or amended;
- (e) any conditions attached to the Listing Approval in respect of the Wang Zhi Placement Shares which is required to be fulfilled on or before the completion date, having been fulfilled on or before that date to the satisfaction of the SGX-ST unless waived by the SGX-ST;
- (f) the Deed of Undertaking containing the terms set out in paragraph 3.2.2 duly executed by Wang Zhi and the Loan Agreement containing the terms set out in paragraph 3.2.3 duly executed by Wang Zhi and the Company;
- (g) disbursement of the Loan within sixty (60) days from the date of the Wang Zhi Placement Agreement, in accordance with the Loan Agreement, or within such other period and on such terms as Wang Zhi and the Company may otherwise agree;
- (h) Wang Zhi and, if applicable, his nominees obtaining the necessary corporate approval(s) and approval(s) from all applicable governmental authorities to subscribe for the Wang Zhi Placement Shares at the Wang Zhi Placement Price in accordance with the terms of the Wang Zhi Placement Agreement;
- (i) the Wang Zhi Placement not being prohibited by any statute, order, rule, regulation or directive promulgated or issued after the date of the Wang Zhi Placement Agreement by any legislative, executive or regulatory body or authority of Singapore or elsewhere which is applicable to the Company or Wang Zhi (including but not limited to the SGX-ST, the Securities Industry Council, and other governmental authorities);
- (j) there having been, as at the completion date of the Wang Zhi Placement, no occurrence of any event nor the discovery of any fact rendering untrue or incorrect in any material respect any of the representations and warranties contained in the Wang Zhi Placement Agreement as if they were repeated on and as of the completion date of the Wang Zhi Placement;
- (k) the Company or Wang Zhi or its nominee not in breach of any of the undertakings and covenants given in the Wang Zhi Placement Agreement as at the completion date of

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the Wang Zhi Placement, and if any of such undertakings and covenants are required to be fulfilled on or before such date, such undertakings and covenants shall have been fulfilled prior to such date; and

- (l) there not having occurred, in the reasonable opinion of Wang Zhi, any material adverse change, or any development reasonably likely to involve a prospective material adverse change, whether or not arising from transactions in the ordinary course of business, subsequent to the date of the Wang Zhi Placement Agreement which, in the reasonable opinion of Wang Zhi, is or is reasonably likely to be materially adverse in the context of the Wang Zhi Placement or is reasonably likely to prejudice materially the success of the Wang Zhi Placement or dealings in the Wang Zhi Placement Shares in the primary market,

(collectively, the “**Wang Zhi Conditions Precedent**” and each a “**Wang Zhi Condition Precedent**”).

3.2.2 In respect of the Wang Zhi Condition Precedent set out in paragraph 3.2.1 (f) above, Wang Zhi has on 23 November 2017 executed a deed of undertaking (the “**Deed of Undertaking**”) pursuant to which 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) (the “**Water Treatment Asset**”) within twenty-four (24) months from the completion date of the Wang Zhi Placement Agreement (the “**Asset Injection**”). The Deed of Undertaking contains the following terms, in accordance with the conditions set out in the Wang Zhi Placement Agreement:

- (a) the Water Treatment Asset shall fulfil the following criteria, and the Company’s investment therein shall be subject to the approval of the Board:
  - (i) the Water Treatment Asset shall have a project internal rate of return of not less than 12% during its operational lifespan based on the concession granted by relevant government authorities; and
  - (ii) the Water Treatment Asset shall be of a value not less than RMB80,000,000; and
- (b) in the event that:
  - (i) the Board does not approve the Company’s investment in the Water Treatment Asset being not in the interest of or beneficial to the Company (the Company to be acting reasonably and the Board acting in good faith) and the Company notifies Wang Zhi in writing of such decision (the “**Notice of Rejection**”), or
  - (ii) following the Board’s approval of the Company’s investment in the Water Treatment Asset, Wang Zhi fails to complete the transfer of the Water Treatment Asset within twenty-four (24) months from the completion date of the Wang Zhi Placement in accordance with Paragraph 3.2.2(a) above,

Wang Zhi shall pay a compensation sum of S\$2,000,000 to the Company by way of telegraphic transfer or cashier’s order within five (5) business days from the expiry of the twenty-four (24) month period following completion of the Wang Zhi Placement Agreement or from the date on which the Company delivers the Notice of Rejection to Wang Zhi (as the case may be).

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For the avoidance of doubt, the Water Treatment Asset does not form part of the Wang Zhi Placement Consideration, and the Company will pay Wang Zhi the consideration for the Water Treatment Asset when the Water Treatment Asset has been identified and upon the Asset Injection taking place. Wang Zhi's undertaking and obligation in respect of the Water Treatment Asset and the Asset Injection and terms relating thereto are governed by the Deed of Undertaking. The Company will make necessary announcements and ensure compliance with the Listing Rules in respect of the Asset Injection as and when the Water Treatment Asset is identified and the Asset Injection takes place.

3.2.3 In respect of the Wang Zhi Conditions Precedent set out in paragraphs 3.2.1(f) and 3.2.1(g) above, Wang Zhi has on 23 November 2017 entered into a loan agreement with the Company (the "**Loan Agreement**") to grant a loan of S\$4,000,000 to the Company (the "**Loan**") to be disbursed within sixty (60) days from the date of the Wang Zhi Placement Agreement. The Loan Agreement contains the following terms, in accordance with the conditions set out in the Wang Zhi Placement Agreement:

- (a) the Loan shall be used solely and exclusively for the working capital of the Target;
- (b) the Loan shall be repayable within twenty-four (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; and
- (c) if completion under the Wang Zhi Placement Agreement does not take place by the Wang Zhi Placement Long Stop Date for whatever reason, the Company shall repay the Loan to Wang Zhi (together with any interest accrued) in full within 14 days on demand by Wang Zhi.

3.2.4 If the Wang Zhi Conditions Precedent are not satisfied on or before the Wang Zhi Placement Long Stop Date, the Company and Wang Zhi shall be released and discharged from their respective obligations under the Wang Zhi Placement Agreement, save for any rights and liabilities accrued on or prior to such termination.

3.2.5 Pursuant to the Wang Zhi Placement Agreement, the completion date of the Wang Zhi Placement shall be the date falling no later than five (5) business days after the date of the last of the Wang Zhi Conditions Precedent are satisfied, or such other date as the Company and Wang Zhi may agree in writing.

### 3.3 Information on Wang Zhi

3.3.1 Pursuant to the Wang Zhi Placement Agreement and subject to the satisfaction of the Wang Zhi Conditions Precedent, the Wang Zhi Placement Shares are to be issued and allotted to Wang Zhi, resulting in Wang Zhi holding not more than 29.5% of the Enlarged Share Capital of the Company. Following the completion of the Wang Zhi Placement, Wang Zhi shall become a controlling shareholder of the Company.

3.3.2 Wang Zhi is an independent investor and was referred to the Company by Ms. Lee Fie Jye. Wang Zhi has more than 15 years of experience in the business of water and wastewater treatments and water supply. He is currently the chairman of Future Investment Enterprise Limited, a company incorporated in Hong Kong which is involved in the investment and management of water supply and wastewater treatment.

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3.3.3 Wang Zhi currently holds, through its wholly-owned holding and/or investment companies four BOT/BOO water supply and wastewater treatment projects as follows:

(i) Sishui Wastewater Treatment Plant

The Sishui Wastewater Treatment Plant has a capacity of 60 MLD for secondary treatment of municipal and industrial wastewater, and is located in Sishui County, Shandong Province, PRC. It is owned by Hui Ze Water Services (Sishui) Co., Ltd. (晖泽(泗水)水务有限公司), which is a wholly owned subsidiary of DSG Environment Shandong Limited (“**DESL**”), a limited liability company incorporated in Hong Kong. DESL is in turn fully owned by another Hong Kong incorporated company, East Sun International Limited, which is wholly owned by Wang Zhi. Therefore, the Sishui Wastewater Treatment Plant project is indirectly and wholly owned by Wang Zhi.

(ii) Cao Xian Water Supply Project

The Cao Xian Water Supply Project involves the supply, operation, maintenance, management and distribution of potable water supply to the Cao County and the surrounding villages in Shandong Province, PRC. It has a supply capacity of 60 MLD. Future Investment Enterprise Limited, a Hong Kong incorporated company which is wholly owned by Wang Zhi through another investment holding company incorporated in Hong Kong, owns 55% of the water supply company, Hui Ze Water Services (He Ze) Co., Ltd (晖泽泗水水务(菏泽)有限公司). Therefore, Wang Zhi indirectly holds 55% interest in the Cao Xian Water Supply Project.

(iii) Linyi Water Supply Project;

Linyi Water Supply is a 150 MLD potable water supply project. It involves the supply, operation, maintenance, management and distribution of potable water to the City of Linyi in Shandong Province. Salcon Linyi (HK) Limited, a company incorporated in Hong Kong (“**SLL**”), holds 60% of equity interest in Linyi Shikang Water Services Co., Ltd. (临沂实康水务有限公司), the company which owns the concession. SLL is a wholly owned subsidiary of another Hong Kong incorporated limited liability company, Orient Harmony Holdings Limited, which is wholly owned by Wang Zhi. Therefore, Wang Zhi indirectly holds 60% of the equity interest in the Linyi Water Supply Project.

(iv) ZanHuang Water Supply and Wastewater Treatment Project;

The concession comprises a 50 MLD potable water supply and a 20 MLD wastewater treatment in ZanHuang county, Hebei Province, PRC. The project company, Hebei Kaiyuan Chenghe Water Services Engineering Co., Ltd. (河北凯源诚合水务工程有限公司), is 70% owned by Hydroring Pte Ltd (“**HPL**”), a limited liability private company incorporated in Singapore. The other 30% is owned by Chenghe Lvse (Beijing) Technology Co., Ltd. (诚合绿色(北京)科技有限公司), a company incorporated in PRC and is wholly owned by Ultraco Greentech Pte Ltd. (“**UGPL**”), a Singapore incorporated private limited company. Both HPL and UGPL are wholly owned by OBOR Investment Holdings Pte Ltd (“**OIH**”), which is wholly owned by Wang Zhi. OIH is also incorporated in Singapore. Therefore, the Zanhuang Water Supply and Wastewater Treatment Plant project is indirectly and wholly owned by Wang Zhi.

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3.3.4 Wang Zhi also has business interests in renewable energy, tourism and ecological agriculture.

3.3.5 Wang Zhi is an unrelated third-party and does not have any relationship with the Company's Directors and Substantial Shareholders.

### **3.4 Rationale for the Wang Zhi Placement**

3.4.1 The Company intends to use the Wang Zhi Placement Net Proceeds from the Wang Zhi Placement: (i) to finance the business expansion of the Group, (ii) to improve its cash flow, (iii) to increase working capital, and (iv) for general corporate purposes.

3.4.2 The Directors are of the opinion that after taking into consideration the present bank facilities, the working capital available to the Group is sufficient to meet its present requirements.

3.4.3 The Directors are further of the opinion that after taking into consideration the present bank facilities and Wang Zhi Placement Net Proceeds, the working capital available to the Group is sufficient to meet its present requirements.

### **3.5 Use of Proceeds**

3.5.1 When allotted and issued in full, the estimated net proceeds from the Wang Zhi Placement (the "**Wang Zhi Placement Net Proceeds**"), after deducting expenses of approximately S\$196,000 incurred in connection with the Wang Zhi Placement, is expected to amount to approximately \$15,396,000, in the event 23,987,726 Wang Zhi Placement Shares are issued, or approximately \$19,426,000 (after deducting expenses of approximately S\$237,000) in the event 30,251,151 Wang Zhi Placement Shares are issued.

3.5.2 The Company intends to use the Wang Zhi Placement Net Proceeds as follows:

- (a) approximately 30% of the Wang Zhi Placement Net Proceeds for working capital for engineering contracting business and expansion; and
- (b) approximately 70% of the Wang Zhi Placement Net Proceeds for investment in environmental related infrastructure projects to generate recurring income.

3.5.3 The Company will make periodic announcements as to the use of the Wang Zhi Placement Net Proceeds as and when such Wang Zhi Placement Net Proceeds are materially disbursed and whether such use is in accordance with the stated use. Where there is any material deviation from the stated use of the Wang Zhi Placement Net Proceeds, the Company will announce the reason(s) for such deviation.

3.5.4 Pending the deployment of the Wang Zhi Placement Net Proceeds, such proceeds may be placed as short term deposits with financial institutions and/or invested in short term money markets or debt instruments or for any other purposes on a short term basis as the Directors may in their absolute discretion deem fit, from time to time.

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### 4. THE RS PLACEMENT

#### 4.1 The RS Placement

4.1.1 The Company has, on 15 November 2017, entered into the RS Placement Agreement with RS, pursuant to which the Company agrees to issue, and RS agrees to subscribe for, 1,500,000 RS Placement Shares at a placement price of S\$0.60 (the “**RS Placement Price**”) for each RS Placement Share.

#### 4.1.2 RS Placement Price

The RS Placement Price represents a premium of approximately 3.4% to the VWAP of S\$0.58 for each Share of the Company for trades done on the SGX-ST for the full market day on 14 November 2017, being the last trading day preceding the date of the RS Placement Agreement.

#### 4.1.3 RS Placement Consideration

The consideration payable by RS to the Company is S\$900,000 (the “**RS Placement Consideration**”).

#### 4.1.4 RS Placement Shares

The RS Placement Shares shall be issued free from all claims, charges, liens and other encumbrances whatsoever and shall rank, *pari passu*, in all respects with the existing Shares save that they will not rank for any dividends, rights, allotments or other distributions, the Record Date of which falls on or before the relevant date of completion of the RS Placement.

#### 4.1.5 Completion of the RS Placement

Completion of the RS Placement shall take place three (3) business days after the date the last of the RS Conditions Precedent are satisfied (or, if that day is not a business day, on the next business day), or such other date as the Company and RS may agree in writing.

#### 4.1.6 No Placement Agent

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

#### 4.1.7 Private Placement

The offer of the RS Placement Shares from the Company to RS will be undertaken in accordance with Section 272B of the Securities and Futures Act, Chapter 289 of Singapore. Accordingly, it is not made in or accompanied by a prospectus that is registered by the Monetary Authority of Singapore.



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### 4.2 The RS Conditions Precedent

4.2.1 Completion of the RS Placement shall be conditional upon the following:

- (a) RS having obtained all governmental approvals in Singapore or elsewhere required under any applicable laws for the remittance of the RS Placement Consideration to the bank account designated by the Company;
- (b) the Listing Approval for the listing of the RS Placement Shares and the approval of the Shareholders at the EGM having been obtained (on terms and conditions acceptable to the Company and RS, each acting reasonably) and not being revoked or amended, and any conditions attached to the Listing Approval which is required to be fulfilled on or before the date of completion of the RS Placement, having been fulfilled on or before that date to the satisfaction of the SGX-ST unless waived by the SGX-ST;
- (c) the RS Placement not being prohibited by any statute, order, rule, regulation or directive promulgated or issued after the date of the RS Placement Agreement by any legislative, executive or regulatory body or authority of Singapore or elsewhere which is applicable to the Company or RS (including but not limited to the SGX-ST);
- (d) there having been, as at the date of completion of the RS Placement, no occurrence of any event nor the discovery of any fact rendering untrue or incorrect in any material respect any of the representations and warranties contained in the RS Placement Agreement as if they were repeated on and as of the date of completion of the RS Placement; and
- (e) the Company or RS is not in breach of any of the undertakings and covenants given in the RS Placement Agreement as at the date of completion of the RS Placement, and if any of such undertakings and covenants are required to be fulfilled on or before the date of completion of the RS Placement, such undertakings and covenants shall have been fulfilled prior to the such date,

(collectively, the “**RS Conditions Precedent**” and each a “**RS Condition Precedent**”).

4.2.2 If any of the RS Conditions Precedent is not satisfied or waived in whole or in part by the Company on or before the date falling 120 calendar days after 15 November 2017 or such other date as the Company and RS may agree, the Company and RS shall be released and discharged from their respective obligations under the RS Placement Agreement, save for certain rights and liabilities accrued on or prior to such termination according to the terms of the RS Placement Agreement.

### 4.3 Information on RS

4.3.1 As at the Latest Practicable Date, RS is a controlling shareholder of the Company, holding 9,165,500 Shares which represents approximately 15.07% of the Existing Share Capital.

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### 4.4 Rationale for the RS Placement

4.4.1 The rationale for the RS Placement is to raise funds for the Company to invest in public-private partnership water infrastructure projects.

### 4.5 Use of Proceeds

4.5.1 The estimated net proceeds from the RS Placement is S\$882,000, after deducting estimated fees and expenses) of approximately S\$18,000 from the RS Placement Consideration (“**RS Placement Net Proceeds**”). The Company intends to utilise the RS Placement Net Proceeds in the following proportions:

Use of RS Placement Net Proceeds	Proportion of RS Placement Net Proceeds (%)	Approximate Amount (S\$)
Funding new projects or investments when opportunities arises	70%	617,000
Working Capital	30%	265,000

4.5.2 Pending deployment of the RS Placement Net Proceeds for such purposes, the RS Placement Net Proceeds may be placed in deposits with financial institutions or invested in short-term money market instruments or used for any other purposes on a short-term basis as the Directors may in their absolute discretion deem fit in the interests of the Group.

4.5.3 The Company will make periodic announcements as to the use of the RS Placement Net Proceeds as and when such RS Placement Net Proceeds are materially disbursed and whether such use is in accordance with the stated use. Where there is any material deviation from the stated use of the RS Placement Net Proceeds, the Company will announce the reason(s) for such deviation.

4.5.4 A table showing the aggregate net proceeds received from the Wang Zhi Placement, Sofos Placement, and the RS Placement, as well as an overview of the Company’s use of the WZ Placement Net Proceeds, RS Placement Net Proceeds, and the net proceeds received from the Sofos Placement are set out in **Appendix A** to this Circular.

## 5. CHAPTER 8 OF THE LISTING RULES

### 5.1 The Proposed Acquisition

5.1.1 Pursuant to Rules 812(1)(a) and 812(1)(c) of the Listing Rules, an issue must not be placed to (i) an issuer’s substantial shareholders, or (ii) substantial shareholders, related companies, associated companies and sister companies of the issuer’s substantial shareholders, unless specific shareholders’ approval for such a placement has been obtained.

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## LETTER TO SHAREHOLDERS

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

5.1.3 In accordance with Rule 812(2) of the Listing Rules, Wah Lee and its associates shall abstain from voting on the resolution approving the proposed allotment and issuance of the Consideration Shares at the EGM, notice of which is set out on pages N-1 to N-2 of this Circular.

### 5.2 Wang Zhi Placement

5.2.1 Pursuant to Rules 803(1) of the Listing Rules, an issuer must not issue securities to transfer a controlling interest without prior approval of shareholders in general meeting.

5.2.2 Upon completion of the Wang Zhi Placement, Wang Zhi will acquire a controlling interest in the Company, as he will hold such number of Shares representing 29.5% of the Enlarged Share Capital.

5.2.3 Accordingly, the Company intends to seek specific shareholder's approval in respect of the placement of Wang Zhi Placement Shares to Wang Zhi at the EGM notice of which is set out on pages N-1 to N-2 of this Circular.

### 5.3 RS Placement

5.3.1 As RS is a Substantial Shareholder of the Company, the Company will be seeking the approval from the Shareholders for the RS Placement at the EGM, notice of which is set out on pages N-1 to N-2 of this Circular, pursuant to Rule 812 of the Listing Rules.

5.3.2 In accordance with Rule 812(2) of the Listing Rules, RS and his associates shall abstain from voting on the resolution approving the proposed allotment and issuance of the RS Placement Shares at the EGM.

## 6. SGX-ST LISTING APPROVAL

6.1 On 31 January 2018, the Company received the Listing Approval, subject to, *inter alia*, the following conditions:

The Listing Approval is subject to the following:

(a) in respect of the placement of the Consideration Shares:

(i) Shareholders' approval on the issuance of the Consideration Shares to a Substantial Shareholder of the Company pursuant to Rule 812 of the Listing Rules and

(ii) compliance with the SGX-ST's listing requirements;

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## LETTER TO SHAREHOLDERS

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- (b) in respect of the Wang Zhi Placement:
  - (i) Shareholders' approval on the issuance of the Wang Zhi Placement Shares to transfer a controlling interest in the Company pursuant to Rules 803(1) and 805(1) of the Listing Rules; and
  - (ii) compliance with the SGX-ST's listing requirements;
- (c) in respect of the Sofos Placement, compliance with the SGX-ST's listing requirements; and
- (d) in respect of the RS Placement:
  - (i) Shareholders' approval on the issuance of the RS Placement Shares to a Substantial Shareholder of the Company pursuant to Rule 812 of the Listing Rules; and
  - (ii) compliance with the SGX-ST's listing requirements.

**6.2** In addition, the Company is required to provide the SGX-ST with a written undertaking that it will comply with Rules 803 and 812(1) of the Listing Rules and will not issue the Shares without prior approval of the Shareholders at a general meeting. The Company has provided such written undertaking to the SGX-ST on 2 February 2018.

**6.3** The Listing Approval is not to be taken as an indication of the merits of the Proposed Acquisition, the Wang Zhi Placement, the Sofos Placement, the RS Placement, the Consideration Shares, the Wang Zhi Placement Shares, the Sofos Placement Shares, RS Placement Shares, the Company, its subsidiaries and their securities. The SGX-ST takes no responsibility for the accuracy of any statements or opinions made or reports contained in this Circular.

## **7. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION, THE WANG ZHI PLACEMENT AND RS PLACEMENT**

### **7.1 Bases and Assumptions**

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

- (a) the effect of the Proposed Acquisition, the Wang Zhi Placement and the RS Placement on the Company's NTA per Share for FY2016 is based on the assumption that the Proposed Acquisition, the Wang Zhi Placement and the RS Placement had been effected at the end of FY2016; and
- (b) the effect of the Proposed Acquisition, the Wang Zhi Placement and the RS Placement on the Company's EPS for FY2016 is based on the assumption that the Proposed Acquisition, the Wang Zhi Placement and the RS Placement had been effected at the beginning of FY2016.

## LETTER TO SHAREHOLDERS

### 7.2 Effect on NTA

For illustrative purposes only, the financial effects of the Proposed Acquisition, the Wang Zhi Placement and the RS Placement on the Group's NTA per Share, based on the assumption stated above in Paragraph 7.1(a), are set out below:

	As at 31 December 2016	
	Before Proposed Acquisition, the Wang Zhi Placement and the RS Placement	After Proposed Acquisition, the Wang Zhi Placement and the RS Placement
NTA <sup>(1)</sup> (S\$)	24,891	45,577
Number of Shares	52,326,601 <sup>(1)</sup>	88,831,492 <sup>(2)</sup>
NTA per Share (cents)	47.57	51.31

**Notes:**

- (1) The number of Shares does not include the 5,000,000 Shares which were issued to Capital Boom Limited and Robert Stone Alexander on 7 April 2017 and 3 May 2017, respectively, pursuant to the placement agreements entered into by the Company with each of the aforesaid places (the "**CB and RS Placements**"). Please refer to the announcements released by the Company on 7 April 2017 and 3 May 2017 for details on the completion of the CB and RS Placements.
- (2) The Enlarged Share Capital of 88,831,492 Shares is computed on the basis that the Proposed Corporate Actions that have completed are the Proposed Acquisition, the Wang Zhi Placement, the RS Placement and the Sofos Placement, and accordingly, 27,680,000 Wang Zhi Placement Shares is placed to Wang Zhi, representing 29.5% of the Enlarged Share Capital.

### 7.3 Effect on EPS

For illustrative purposes only, the financial effects of the Proposed Acquisition, the Wang Zhi Placement and the RS Placement on the consolidated earnings of the Group, based on the assumption stated above in paragraph 7.1(b), are set out below:

	As at 1 January 2016	
	Before Proposed Acquisition, the Wang Zhi Placement and the RS Placement	After Proposed Acquisition, the Wang Zhi Placement and the RS Placement
Profits attributable to Shareholders (S\$'000)	2,572	2,849
Number of Shares	46,840,077 <sup>(1)</sup>	83,344,968 <sup>(2)</sup>
EPS (cents)	5.49	3.42

**Notes:**

- (1) The number of Shares does not include the 5,000,000 Shares issued pursuant to the CB and RS Placements. Please refer to the announcements released by the Company on 7 April 2017 and 3 May 2017 for details on the completion of the CB and RS Placements.
- (2) The Enlarged Share Capital of 88,831,492 is computed on the basis that the Proposed Corporate Actions that have completed are the Proposed Acquisition, the Wang Zhi Placement, the RS Placement and the Sofos Placement, and accordingly, 27,680,000 Wang Zhi Placement Shares is placed to Wang Zhi, representing 29.5% of the Enlarged Share Capital.

## LETTER TO SHAREHOLDERS

### 8. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

8.1 The interests of the Directors and Substantial Shareholders in the Shares of the Company, as recorded in the Register of Directors' Shareholdings and the Register of Substantial Shareholders kept by the Company, respectively, as at the Latest Practicable Date, are set out below.

Name	As at the Latest Practicable Date (Number of Shares)			After Completion of the Proposed Acquisition, the Wang Zhi Placement and the RS Placement (Number of Shares)		
	Direct Interest	Deemed Interest	% <sup>(1)</sup>	Direct Interest	Deemed Interest	% <sup>(2)</sup>
<b>Directors</b>						
Thye Kim Meng	7,155,485	–	11.76	7,155,485	–	7.63
Heather Tan Chern Ling	8,160	–	0.01	8,160	–	0.01
Wang Yaoyu <sup>(3)</sup>	–	13,387,118	22.01	–	13,387,118	14.27
Tay Lee Chye Lester	–	–	–	–	–	–
Tay Von Kian	–	–	–	–	–	–
Oh Chee Sien	–	–	–	–	–	–
<b>Substantial Shareholders</b> (other than Directors)						
Robert Wang @ Wang Zhi	–	–	–	27,680,000	–	29.50
Robert Alexander Stone	9,165,500	–	15.07	10,665,500	–	11.37
Wuhan Liankai Investment Co., Ltd.	13,387,118	–	22.01	13,387,118	–	14.27
Wah Lee Industrial Corp.	4,589,869	–	7.55	7,649,782	–	8.15
Sofos Infrastructure Investment Fund SPC	3,500,000	–	5.75	3,500,000	–	3.73

**Notes:**

- (1) Based on the Existing Share Capital.
- (2) Based on the Enlarged Share Capital. For illustrative purposes, the Enlarged Share Capital of 93,831,492 is computed on the basis that the Proposed Corporate Actions that have completed are the Proposed Acquisition, the Wang Zhi Placement, the RS Placement and the Sofos Placement, and accordingly, 27,680,000 Wang Zhi Placement Shares is placed to Wang Zhi, representing 29.5% of the Enlarged Share Capital.
- (3) Mr Wang Yaoyu ("Mr Wang") holds 25.07% equity interest of Wuhan Liankai Investment Co., Ltd. Wuhan Liankai Investment Co., Ltd. owns 13% equity interest of Wuhan Kaidi Water Service Company, a 60% owned subsidiary of the Company, and 22.01% equity interest of the Company. As such, Mr Wang is deemed interested in the shares held by Wuhan Liankai Investment Co., Ltd. by virtue of Section 7 of the Companies Act, Chapter 50.

8.2 Save for their respective interests in the Shares, none of the Directors and their respective associates, has any interest, whether direct or indirect, in the Proposed Acquisition, the Wang Zhi Placement and the RS Placement.

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## LETTER TO SHAREHOLDERS

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### 9. DIRECTORS' RECOMMENDATION

Having considered, *inter alia*, the rationale and benefits of the Proposed Acquisition, Wang Zhi Placement and the RS Placement, the Directors are of the view that the Proposed Acquisition, the Wang Zhi Placement and the RS Placement are in the best interests of the Company. Accordingly, the Directors recommend that Shareholders vote in favour of the Ordinary Resolutions relating thereto.

### 10. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Proposed Acquisition, the Wang Zhi Placement and the RS Placement, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Circular misleading. Where information in the Circular has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the Circular in its proper form and context.

### 11. EXTRAORDINARY GENERAL MEETING

11.1 Shareholders who are unable to attend the EGM and wish to appoint a proxy to attend and vote at the EGM on their behalf, should complete, sign and return the proxy form attached to this Circular in accordance with the instructions printed thereon as soon as possible and, in any event, so as to reach the registered office of the Company at 21 Marsiling Industrial Estate Road 9 #01-03 Singapore 739175 not later than 48 hours before the time fixed for the EGM. The completion and return of a proxy form by a Shareholder will not prevent him from attending and voting in person at the EGM if he so wishes.

11.2 A Depositor shall not be regarded as a member of the Company entitled to attend the EGM and to speak and vote thereat unless he is shown to have Shares entered against his name in the Depository Register, as certified by the CDP, as at 72 hours before the EGM.

### 12. ABSTENTION FROM VOTING

#### 12.1 Resolution in respect of the Proposed Acquisition

12.1.1 In accordance with Rules 812(2) of the Listing Rules, Wah Lee and its associates must abstain from voting on the resolution in respect of the proposed allotment and issuance of the Consideration Shares. Wah Lee has undertaken to the Company to abstain and procure that its associates will abstain from voting on the Ordinary Resolution in respect thereof.

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## LETTER TO SHAREHOLDERS

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12.1.2 Furthermore, Wah Lee shall decline, and ensure that its associates decline to accept appointment as proxy/proxies to vote at the EGM in respect of the Ordinary Resolution in relation to the Proposed Acquisition for other Shareholders unless the Shareholders concerned shall have given specific instructions as to the manner in which his votes are to be cast at the EGM.

### 12.2 Resolution in respect of the RS Placement

12.2.1 In accordance with Rules 812(2) of the Listing Rules, RS and his associates must abstain from voting on the resolution in respect of the proposed allotment and issuance of the RS Placement Shares. RS has undertaken to the Company to abstain and procure that his associates will abstain from voting on the Ordinary Resolution in respect thereof.

12.2.2 Furthermore, RS shall decline, and ensure that his associates decline to accept appointment as proxy/proxies to vote at the EGM in respect of the Ordinary Resolution in relation to the RS Placement for other Shareholders unless the Shareholders concerned shall have given specific instructions as to the manner in which his votes are to be cast at the EGM.

## 13. ACTION TO BE TAKEN BY SHAREHOLDERS

### 13.1 Appointment of Proxies

Shareholders who are unable to attend the EGM and wishes to appoint a proxy/proxies to attend and vote on their behalf will find enclosed with this Circular, a proxy form ("**Shareholder Proxy Form**") which they should complete, sign and return in accordance with the instructions printed thereon as soon as possible and, in any event, so as to reach at the registered office of the Company not less than forty-eight (48) hours before the time appointed for the holding of the EGM. The completion and return of a Shareholder Proxy Form by a Shareholder does not preclude him from attending and voting in person at the EGM in place of his proxy/proxies if he finds that he is able to do so. In such an event, the Shareholder Proxy Form will be deemed to be revoked.

### 13.2 Depositors

A Depositor shall not be regarded as a Shareholder entitled to attend the EGM and to speak and vote thereat unless his name appears on the Depository Register at least seventy-two (72) hours before the time fixed for the EGM.



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## LETTER TO SHAREHOLDERS

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### 14. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company during normal business hours from the date hereof up to and including the date of the EGM:

- (a) the SPA;
- (b) the Wang Zhi Placement Agreement;
- (c) the Deed of Undertaking;
- (d) the Loan Agreement;
- (e) the RS Placement Agreement; and
- (f) the FY2016 Annual Report of the Group.

Yours faithfully

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

Thye Kim Meng  
Chairman, Managing Director and Chief Executive Officer

**APPENDIX A**  
**CONSOLIDATED NET PROCEEDS AND OVERVIEW OF**  
**USE OF CONSOLIDATED NET PROCEEDS**

**Consolidated Net Proceeds**

Placee	Gross Proceed (\$)	Expense incurred in connection with each respective placement (\$)	Net Proceed (\$)
Wang Zhi	19,663,000	(237,000)	19,426,000
Sofos Investment Fund SPC	2,100,000	(68,000)	2,032,000
RS	900,000	(18,000)	882,000
<b>Total:</b>	<b>22,663,000</b>	<b>(323,000)</b>	<b>22,340,000</b>

**Allocation of Consolidated Net Proceeds**

	Placement from which fund is received/Purpose to which fund is applied	Engineering contracts and business expansion (\$)	Funding new projects, investments in environmental relation infrastructure projects and other investments (\$)	Working Capital (\$)	Total Funds raised/used (\$)
<b>Funds Received</b>	Wang Zhi Placement	5,827,800	13,598,200	–	19,426,000
	Sofos Placement	–	1,422,000	610,000	2,032,000
	RS Placement	–	617,000	265,000	882,000
	<b>Total</b>	<b>5,827,800</b>	<b>15,637,200</b>	<b>875,000</b>	<b>22,340,000</b>
<b>Funds applied</b>	Darco-InfraCo Project <sup>(1)</sup> – Phase 1	–	(4,300,000)	–	(4,300,000)
	Darco Infraco Project <sup>(1)</sup> – Phase 2	–	(3,198,000)	–	(3,198,000)
	Projects in the ASEAN region	–	(8,139,200)	–	(8,139,200)
	Existing Housing Development Board (“HDB”) Projects <sup>(2)</sup>	(1,750,000)	–	–	(1,750,000)
	Potential Pneumatic Waste Collection System Projects	(4,077,800)	–	–	(4,077,800)
	Working Capital	–	–	(875,000)	(875,000)
	<b>Total</b>	<b>(5,827,800)</b>	<b>(15,637,200)</b>	<b>(875,000)</b>	<b>(22,340,000)</b>
	<b>Net Balances</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

**Notes:–**

- (1) The Company made a press release on SGXNET on 21 September 2017 in respect of its partnership with InfraCo Asia Development Pte. Ltd. on the Design, Build, Own, Operate model for four municipal water treatment projects in Vietnam.
- (2) The Company made a press release on SGXNET on 3 May 2016 in respect of the Pneumatic Waste Collection System Projects with HDB.

**APPENDIX B**  
**KEY AUDITED FINANCIAL FIGURES OF THE TARGET FOR**  
**THE PAST 3 FINANCIAL YEARS AND LATEST BALANCE SHEET**

**Analysis of Selected Financial Information of the Target**

Review of operating results of the Target

Set out below is the summary of the financial information of Target for the past three financial years ended (“FY”) 31 December 2014, financial period ended 31 December 2015, financial period ended 31 December 2016, and financial period ended 31 December 2017, extracted from the audited financial statements for FY2014, FY2015 and FY2016 and unaudited management accounts for the twelve-month period ended 31 December 2017 of Target provided by the Company. The financial statements are presented in RMB.

RMB' million	Audited	Audited	Audited	Unaudited
	FY2014	FY2015	FY2016	12 months ended 31 December 2017
Revenue	46.22	83.93	145.67	120.58
Gross profit	19.05	32.84	34.11	28.63
Gross profit margin	41.2%	39.1%	23.4%	23.7%
Profit/(loss) before income tax	7.46	11.31	12.84	10.51
Net profit	7.03	10.05	11.05	8.95
Net profit margin	15.2%	12.0%	7.6%	7.4%

*(Source: the Target)*

The Target is principally engaged in the business of engineering, procurement and construction (“EPC”) contracting of water purification and treatment systems and facilities in China. The Target conducts water treatment EPC services mainly for power, metals, textile and paper industries, as well as municipal government entities. As at the Latest Practicable Date, the Target has completed a total of 21 projects since 1 January 2014.

The notable projects the Target has completed include (a) condensate polishing treatment project as the main contractor for the water treatment plant for Harbin Power Station with a capacity of 1200T/H, (b) main contractor for Zhejiang Changsan Power Plant with a capacity of 500T/H, (c) desalination for Taiyuan Iron & Steel (Group) Co., Ltd with a capacity of 300T/H.

The Target recognizes revenue and cost based on the percentage of completion method of accounting, measured by reference to the proportion of costs incurred to date to the total budgeted cost of the relevant contract or project. Considering an average project takes approximately 12-24 months to complete, the Target’s revenue and profit may be subject to periodic fluctuations, both from year to year and from period to period within a given year.

The Target recorded sales of RMB46.22 million, RMB83.93 million, RMB145.67 million and RMB120.58 million for FY2014, FY2015, FY2016 and the twelfth-months period ended 31 December 2017 (unaudited) respectively. The cost of sales pertains mainly to (i) costs involved during the outsourcing of ground work to external subcontractors – the Target typically sub-contract construction work to specialized construction subcontractors and its employees are principally involved in higher value-added components of services such as engineering, design implementation and supervision of construction; (ii) costs relating to direct labour e.g. on-site engineers and (iii) procurement of equipment cost.

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**APPENDIX B**  
**KEY AUDITED FINANCIAL FIGURES OF THE TARGET FOR**  
**THE PAST 3 FINANCIAL YEARS AND LATEST BALANCE SHEET**

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The Target registered gross profit margins of 41.2%, 39.1%, 23.4% and 23.7% for FY2014, FY2015, FY2016 and the twelfth-months period ended 31 December 2017 (unaudited) respectively.

The Target's gross profit margin deteriorate from 41.2% in FY 2014 to 23.4% in FY2016, which was attributable to larger projects taken by the Target at lower margin. By taking on projects of larger scale, the Target was able to improve its gross profit from RMB19.05 million in FY2014 to RMB34.11 million in FY2016. The Target has also made its best efforts to enhance value-adding services through technology innovation to achieve premium pricing, and to improve its internal controls/management system so as to reduce cost and improve efficiency. By adopting such approach, the Target was able to improve its gross profit margin from 23.4% in FY2016 to 23.7% in FY2017 (unaudited).

The Target recorded volatile historical net profitability margins. The Target recorded net profit margins of 15.2%, 12.0%, 7.6% and 7.4% for FY2014, FY2015, FY2016 and the twelfth-months period ended 31 December 2017 (unaudited) respectively. Such fluctuations in historical net profit margin were primarily caused by changes in gross profit margins.

In the twelfth-months period ended 31 December 2017, the Target has had 28 ongoing projects with total uncompleted value of RMB41.8 million. It is also in the process of bidding and negotiations with customers for 6 new projects with total contract value of approximately RMB155 million.

Review of financial position of the Target

Based on the latest available audited financial statements of the Target for FY2016 and unaudited management accounts as at 31 December 2017, the summary of the balance sheet of the Target is set out below:

RMB' million	Audited	Unaudited
	As at 31 December 2016	As at 31 December 2017
Non-current assets	15.19	19.69
Current assets	174.45	218.65
<b>Total assets</b>	<b>189.64</b>	<b>238.34</b>
Non-current liabilities	0.17	5.15
Current liabilities	125.97	160.74
<b>Total liabilities</b>	<b>126.14</b>	<b>165.89</b>
<b>Net assets</b>	<b>63.50</b>	<b>72.45</b>

*(Source: the Target)*

Based on the management representation, as at 31 December 2016, the Target had total assets of RMB189.64 million comprising mainly current assets. Total current assets of RMB174.45 million comprised mainly notes and accounts receivables of RMB58.96 million (33.8%), inventories of RMB92.49 million (53.0%), other receivables of RMB4.63 million (2.7%), cash and cash equivalents of RMB11.67 million (6.7%), and prepayments of RMB6.70 million (3.8%). The inventories mainly comprise raw materials, goods-in-transit, as well as construction work-in-progress. Other receivables mainly pertain to project tender deposits paid to potential customers and project developers.

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**APPENDIX B**  
**KEY AUDITED FINANCIAL FIGURES OF THE TARGET FOR**  
**THE PAST 3 FINANCIAL YEARS AND LATEST BALANCE SHEET**

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Non-current assets mainly comprised property, plant and equipment of RMB8.07 million, intangibles assets of RMB6.19 million and deferred tax assets of RMB0.92 million. Property, plant and equipment mainly comprised office building, office equipment and computer equipment as well as logistics equipment. Intangibles assets relate to software licenses and license to use technology that were acquired previously.

As at 31 December 2016, the Target had total liabilities of RMB126.14 million comprising mainly current liabilities of RMB125.98 million (99.9%) and non-current liabilities of RMB0.16 million (0.1%). Total current liabilities of RMB125.98 million comprised mainly advances from customers of RMB38.32 million (30.4%), accounts payables of RMB55.66 million (44.2%), employee benefits payable of RMB3.67 million (2.9%), taxes payable of RMB10.52 million (8.4%) and other payables of RMB12.81 million (10.2%). Other payables mainly pertain to tender deposits paid by sub-contractors to the Target and intercompany payables.

Total non-current liabilities mainly comprised contingent liabilities of RMB0.16 million set aside for unforeseeable expenses in respect of post-engagement closing.

As at 31 December 2016, the audited NTA of the Target was approximately RMB63.50 million (being approximately S\$13.24 million based on the exchange rate of S\$1: RMB4.7959). On this basis, the NTA of the Target represented by the 12% Equity Interest is RMB7.62 million (being approximately S\$1.59 million based on the exchange rate of S\$1: RMB4.7959). We note that the Consideration of S\$1,912,445.50 is at a premium of approximately 20.36% to the audited NTA of the Target as at 31 December 2016 and the P/NTA ratio of Target as implied by the Consideration is approximately 1.2 times.

As at 31 December 2017, the Target had total assets of RMB238.34 million comprising mainly current assets. Total current assets of RMB218.65 million comprised mainly receivables of RMB85.28 million (39.0%), inventories of RMB87.87 million (40.2%), other receivables of RMB7.71 million (3.5%), cash and cash equivalents of RMB13.97 million (6.4%) and prepayments of RMB23.82 million (10.9%).

Non-current assets mainly comprised property, plant and equipment of RMB14.55 million, intangibles assets of RMB4.39 million and deferred tax assets of RMB0.75 million. Intangible assets relate to an exclusive license to apply VACOM zero discharge system or technology in Greater China area (including mainland China, Taiwan and Hong Kong) to design and construct industrial wastewater treatment and/or recovery projects for various industries. The VACOM system was developed in the US with proven success in treating and removing complex hazardous compositions contained in industrial waste water and the Target believes such proprietary technology will provide itself with a significant competitive edge in winning projects and better pricing power in negotiating with project owners.

The Target had total liabilities of RMB165.89 million comprising mainly current liabilities of RMB160.74 million (96.9%) and non-current liabilities of RMB5.15 million (3.1%). Total current liabilities comprised mainly account payables of RMB93.01 million (57.9%), advances from customers of RMB45.33 million (28.2%), other payables of RMB13.66 million (8.5%), short term borrowing of RMB5.0 million (3.1%), taxes payable of RMB2.55 million (1.6%) and employee benefits payable of RMB1.19 million (0.7%).

Total non-current liabilities mainly comprised bank borrowing of RMB5.0 million and contingent liabilities of RMB0.15 million.

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**APPENDIX B**  
**KEY AUDITED FINANCIAL FIGURES OF THE TARGET FOR**  
**THE PAST 3 FINANCIAL YEARS AND LATEST BALANCE SHEET**

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Based on the unaudited financial results for the twelfth-months period ended 31 December 2017, the unaudited NTA of the Target was RMB68.05 million (being approximately S\$13.98 million based on the exchange rate of SGD1: RMB4.8668) as at 31 December 2017. On this basis, the NTA of the Target represented by the 12% Equity Interest is RMB8.17 million (being approximately S\$1.68 million based on the exchange rate of S\$1: RMB4.8668).

We note that the Consideration of S\$1,912,445.50 is at a premium of 13.97% to the unaudited NTA of the Target as at 31 December 2017 and P/NTA ratio of Target as implied by the Consideration is approximately 1.1 times.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### DARCO WATER TECHNOLOGIES LIMITED

(Company Registration No. 200106732C)  
(Incorporated in the Republic of Singapore)

### NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting (“EGM”) of the Company will be held at Six Battery Road, #10-01, Singapore 049909 on 12 March 2018 at 2.00 p.m. for the purpose of considering and, if thought fit, passing with or without amendment, the ordinary resolutions as set out below.

All capitalised terms in the resolutions below and defined in the Circular dated 23 February 2018 to the shareholders of the Company (“Circular”) shall, unless otherwise defined herein, have the respective meanings ascribed thereto in the Circular.

#### **ORDINARY RESOLUTION 1 – THE PROPOSED ALLOTMENT AND ISSUANCE OF CONSIDERATION SHARES**

Resolved that:–

- (a) For the purposes of Rule 812(1) and Rule 812(2) of the Listing Rules, approval be and is hereby given to the Directors to allot and issue a total of 3,824,891 new ordinary shares in the Company to Wah Lee and Jilead, on and subject to the terms of the SPA, details of which have been set out in the Circular.
- (b) The Directors and each of them be and are hereby authorised to implement, effect and complete, and to do all such acts and things (including executing all such documents as may be required in connection with the Proposed Acquisition) as the Directors or any of them may consider necessary, desirable or expedient to give effect to this resolution as they or he may think fit.

*Note: Wah Lee will, and will procure its associates to, abstain from voting on this Ordinary Resolution 1 in respect of their shareholding, and will not accept nomination as proxies unless specific instructions have been given in the Proxy Form by the Shareholders appointing them on how they wish their votes to be cast.*

#### **ORDINARY RESOLUTION 2 – THE PROPOSED ALLOTMENT AND ISSUANCE OF THE WANG ZHI PLACEMENT SHARES**

Resolved that:–

- (a) For the purposes of Rule 805 (1) of the Listing Rules, approval be and is hereby given to the Directors to allot and issue up to 30,251,151 new ordinary shares in the Company to Wang Zhi, on and subject to the terms of the Wang Zhi Placement Agreement, details of which have been set out in the Circular.
- (b) The Directors and each of them be and are hereby authorised to implement, effect and complete, and to do all such acts and things (including executing all such documents as may be required in connection with the Proposed Acquisition) as the Directors or any of them may consider necessary, desirable or expedient to give effect to this resolution as they or he may think fit.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### **ORDINARY RESOLUTION 3 – THE PROPOSED ALLOTMENT AND ISSUANCE OF THE RS PLACEMENT SHARES**

Resolved that:–

- (a) For the purposes of Rules 812(1) and Rule 812(2) of the Listing Rules, approval be and is hereby given to the Directors to allot and issue a total of 1,500,000 new ordinary shares in the Company to RS, on and subject to the terms of the RS Placement Agreement, details of which have been set out in the Circular.
- (b) The Directors and each of them be and are hereby authorised to implement, effect and complete, and to do all such acts and things (including executing all such documents as may be required in connection with the RS Placement) as the Directors or any of them may consider necessary, desirable or expedient to give effect to this resolution as they or he may think fit.

*Note: RS will, and will procure its associates to, abstain from voting on this Ordinary Resolution 3 in respect of their shareholding, and will not accept nomination as proxies unless specific instructions have been given in the Proxy Form by the Shareholders appointing them on how they wish their votes to be cast.*

By Order of the Board

Shirley Tan Sey Liy  
Company Secretary

Singapore, 23 February 2018



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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### Notes:

- (1) A member of the Company (other than a Relevant Intermediary\*), entitled to attend and vote at the EGM is entitled to appoint a proxy or two proxies to attend and vote on his/her behalf. A proxy need not be a member of the Company.
- (2) Where a member (other than a Relevant Intermediary\*) appoints two proxies, he shall specify the proportion of his shareholding to be represented by each proxy in the instrument appointing the proxies.
- (3) A Relevant Intermediary may appoint more than 2 proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified).
- (4) A member of the Company which is a corporation is entitled to appoint its authorised representative or proxy to vote on its behalf. The appointment of proxy must be executed under seal or the hand of its duly authorised officer or attorney in writing.
- (5) The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 21 Marsiling Industrial Estate Road 9 #01-03 Singapore 739175, at least 48 hours before the time fixed for the EGM.

\* A Relevant Intermediary is:

- (a) a banking corporation licensed under the Banking Act (Chapter 19) of Singapore or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or
- (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Chapter 289) of Singapore and who holds shares in that capacity; or
- (c) the Central Provident Fund Board established by the Central Provident Fund Act (Chapter 36) of Singapore, in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

### Personal Data Protection:

Where a member of the Company submits an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the EGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the EGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, proxy lists, minutes and other documents relating to the EGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

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# DARCO WATER TECHNOLOGIES LIMITED

(Company Registration No. 200106732C)  
(Incorporated in the Republic of Singapore)

## IMPORTANT

1. An investor who holds shares under the Central Provident Fund Investment Scheme ("CPF Investor") and/or the Supplementary Retirement Scheme ("SRS Investors") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.
2. This Proxy Form is not valid for use by CPF and SRS Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

## PROXY FORM EXTRAORDINARY GENERAL MEETING

(Please see notes overleaf before completing this Form)

I/We \_\_\_\_\_ (Name), \_\_\_\_\_ (NRIC/Passport No.)

of \_\_\_\_\_ (Address)

being \*a member/members of **DARCO WATER TECHNOLOGIES LIMITED** (the "Company"), hereby appoint:

Name	NRIC/Passport Number	Proportion of Shareholdings (%)	
		No. of shares	%
Address			

and/or (delete as appropriate)

Name	NRIC/Passport Number	Proportion of Shareholdings (%)	
		No. of shares	%
Address			

as \*my/our proxy/proxies to vote for \*me/us on \*my/our behalf, at the Extraordinary General Meeting of the Company to be held at Six Battery Road, #10-01, Singapore 049909 on 12 March 2018 at 2.00 p.m. and at any adjournment thereof. I/We\* direct my/our\* proxy/proxies\* to vote for or against the Resolutions proposed at the Extraordinary General Meeting as indicated hereunder. In the absence of specific directions, the proxy/proxies will vote or abstain from voting as \*he/they may think fit, as he/they will on any other matter arising at the Extraordinary General Meeting.

\* If you wish to exercise all your votes "For" or "Against", please indicate with an "X" within the box provided. Alternatively, please indicate the number of votes as appropriate.

NO.	ORDINARY RESOLUTIONS	No. of Votes "For"*	No. of Votes "Against"*
1.	To approve the proposed allotment and issuance of the Consideration Shares		
2.	To approve the proposed allotment and issuance of the Wang Zhi Placement Shares		
3.	To approve the proposed allotment and issuance of the RS Placement Shares		

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2018.

Total Number of Shares Held	
CDP Register	
Register of Members	

\_\_\_\_\_  
Signature(s) of Member(s)  
and/or, Common Seal of Corporate Shareholder

**IMPORTANT: PLEASE READ NOTES ON THE REVERSE.**



**Notes:**

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act (Chapter 289) of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
2. A member of the Company (other than a Relevant Intermediary\*), entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a shareholder of the Company.
3. Where a member (other than a Relevant Intermediary\*) appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
4. A Relevant Intermediary may appoint more than 2 proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified).
5. Subject to note 9, completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Extraordinary General Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Extraordinary General Meeting.
6. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 21 Marsiling Industrial Estate Road 9 #01-03 Singapore 739175 not less than forty-eight (48) hours before the time appointed for the Extraordinary General Meeting.
7. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.
8. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Extraordinary General Meeting, and the person so authorised shall upon production of a copy of such resolution certified by a director of the corporation to be a true copy, be entitled to exercise the powers on behalf of the corporation so represented as the corporation could exercise in person if it were an individual.
9. An investor who holds shares under the Central Provident Fund Investment Scheme (“**CPF Investor**”) and/or the Supplementary Retirement Scheme (“**SRS Investors**”) (as may be applicable) may attend and cast his vote(s) at the Extraordinary General Meeting in person. CPF and SRS Investors who are unable to attend the Extraordinary General Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Extraordinary General Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Extraordinary General Meeting.

\* A Relevant Intermediary is:

- (a) a banking corporation licensed under the Banking Act (Chapter 19) of Singapore or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or
- (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Chapter 289) of Singapore and who holds shares in that capacity; or
- (c) the Central Provident Fund Board established by the Central Provident Fund Act (Chapter 36) of Singapore, in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

**General:**

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at seventy-two (72) hours before the time appointed for holding the Extraordinary General Meeting, as certified by The Central Depository (Pte) Limited to the Company.

**Personal Data Protection:**

By attending the Extraordinary General Meeting and/or any adjournment thereof or submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Extraordinary General Meeting dated 23 February 2018.