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

PROPOSED ACQUISITION OF 60% EQUITY INTEREST IN THE REGISTERED CAPITAL OF WUHAN KAIDI WATER SERVICES CO., LTD. (武汉凯迪水务有限公司)

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1. INTRODUCTION

1.1 The board of directors ("**Board**" and "**Directors**" respectively) of Darco Water Technologies Limited ("**Company**", together with its subsidiaries, the "**Group**") is pleased to announce that the Company has on 11 August 2015 entered into a conditional sale and purchase agreement ("**SPA**") with Wuhan Liankai Investment Co., Ltd. (武汉联凯投资有限公司) ("**WHLK**"), Hong Kong Meidi Investments Holdings Co., Ltd. (香港美地投资(控股)有限公司) ("**HKMI**") and Mr. Zhang Zhengda ("**ZZD**") as the vendors (collectively, the "**Vendors**") in respect of the proposed acquisition by the Company of 60% of the total equity interest ("**60% Equity Interest**") in the registered capital of Wuhan Kaidi Water Services Co., Ltd. (武汉凯迪水务有限公司) (the "**Target**") on the terms of the SPA ("**Proposed Acquisition**").

1.2 The Proposed Acquisition is subject to, *inter alia*, the approval of the shareholders of the Company ("**Shareholders**") at an extraordinary general meeting of the Company to be convened ("**EGM**") in accordance with Chapters 8 and 10 of the Listing Manual ("**Listing Manual**") of the Singapore Exchange Securities Trading Limited ("**SGX-ST**").

2. INFORMATION ON THE VENDORS AND THE TARGET

2.1 The Target

Based on information provided to the Company by the Vendors: the Target is a water treatment and management specialist in the People's Republic of China ("**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.

The Target has 22 years of track record of supplying water and waste treatment systems and has carried out over 600 projects to-date. The Target presently has 22 ongoing projects in the PRC covering 14 provinces in the PRC. This includes the construction of a seawater desalination system for a 2*1000MW ultra-supercritical coal-fired power generating plant for China Resources Power Holdings Co., Ltd (Haifeng branch). The total contractual value of the PRC projects amount to approximately RMB487.54 million. Apart from projects in the PRC, the Target also has seven (7) ongoing overseas projects in countries such as Indonesia, Vietnam, Turkey and India. The total contractual value of these overseas projects amount to approximately RMB65.35 million.

2.2 The Vendors

The Vendors currently hold 100% of the equity interest in the registered capital of the Target. The (a) existing percentage of equity interest each Vendor currently holds in the Target and (b) the portion of their equity interest in the Target to be transferred to the Company under the SPA is set out below:

Vendor	Existing percentage equity interest in Target	Percentage of equity interest in Target proposed to be transferred to Company
(a) WHLK	55%	34.2%
(b) HKMI	30%	18%
(c) ZZD	15%	7.8%
Total	***100%***	***60%***

WHLK

WHLK is an investment holding company incorporated in the PRC. It is wholly-owned by the employees of the Target with approximately 90% of its equity interests being held by the senior management and key employees of the Target. The director of WHLK is Mr Wang Yaoyu.

HKMI

HKMI is an investment holding company incorporated in Hong Kong with interests in property and infrastructure development. Approximately 50% of the issued share capital of HKMI is owned by Mr Huang Weidong and Mr Zheng Wei, both being PRC nationals. The directors of HKMI are Mr Huang Weidong, Mr Hu Binglai, Mr Zhang Zhengda, Mr Zeng Wei and Mrs He Rong.

ZZD

Mr. Zhang Zhengda is a PRC national and entrepreneur. He holds various interests in companies engaged in property and infrastructure development.

The Vendors are third parties who are not related to the Company, the Directors and, to the best of the Directors' knowledge, any of the controlling shareholders of the Company. The Proposed Acquisition is therefore not an interested person transaction for the purposes of Chapter 9 of the Listing Manual.

3. KEY TERMS OF THE PROPOSED ACQUISITION

3.1 Consideration

The consideration for the purchase of the 60% Equity Interest shall be S$10,900,939 (the "**Consideration**").

The Consideration shall be satisfied solely by the allotment and issue by the Company to each Vendor (or its nominee(s)) of such number of new ordinary shares ("**Shares**") in the share capital of the Company ("**Consideration Shares**") as determined in accordance with the following formula:

CS = C ÷ I

where:

CS is the number of Consideration Shares (fractions to be disregarded) to be allotted and issued to a Vendor (or its respective nominee(s));

C is the portion of the Consideration due to a Vendor based on the portion of the 60% Equity Interest to be transferred by such Vendor to the Company (as set out in paragraph 2.2); and

I is the issue price for each Consideration Share (the "**Issue Price**") equivalent to S$0.0285,

accordingly, CS = 217,742,359 for WHLK,114,746,725 for HKMI and 50,000,000 for ZZD.

The Consideration Shares, when allotted and issued to the Vendors (or their respective nominees), 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.

The Consideration Shares represent approximately 36.55% of the enlarged Share capital of the Company after the allotment and issuance of the 382,489,084 Consideration Shares, comprising 1,046,532,632 Shares.

Based on the volume weighted average price of the Shares on the SGX-ST on 11 August 2015 (being the full market day on which the SPA was executed) of approximately S$0.0285 (the "**VWAP**"), the Issue Price is the same as the VWAP. There will be no actual cash outlay from the Company to the Vendors given that the 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 to be convened.

The Consideration was agreed on a willing-buyer and willing-seller basis after arms length negotiations. In arriving at the 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 4 (Rationale for the Proposed Acquisition and Benefits to the Group) below; and (e) current prevailing industry and market conditions, and also with reference to the valuation of the Target by Ernst and Young Solutions LLP (the "**Valuer**").

3.2 Valuation of the Target

The Valuer was commissioned by the Company to undertake a valuation of the fair market value of 100% of the equity interest in the Target as at 31 December 2014. The Valuer had assessed the fair market value of the Target on a going concern basis as at 31 December 2014 by using the discounted cash flows methodology under the income approach. Under this approach and methodology, the Valuer had discounted the projected free cash flows of the Target with discount rates having considered, amongst all relevant risk factors, such as business size, business environment, stages of growth and riskiness of cash flows. The free cash flow of the Valuer has been projected for the period from the financial year ended 31 December 2015 to 31 December 2018 with a terminal value attributed.

Based on the valuation performed by the Valuer, the fair market value of 100% of the equity interest in the Target as at 31 December 2014 is in the range of RMB121.5 million to 148.3 million (being approximately S$26,730,000 to S$32,626,000 based on an assumed exchange rate of RMB1:S$0.22 (the "**Illustrative Exchange Rate**")). On this basis, the fair market value attributable to the 60% Equity Interest is in the range of RMB72.9 million to 88.98 million (being approximately S$16,038,000 to S$19,575,600 based on the Illustrative Exchange Rate).

Based on the unaudited financial results for the six-month period ended 30 June 2015 (the "**Unaudited Target Financial Accounts**"), the book value of the Target was RMB51,055,869 (being approximately S$11,232,179 based on the Illustrative Exchange Rate) and the net tangible asset value of the Target was RMB42,950,836 (being approximately S$9,449,090 based on the Illustrative Exchange Rate). On this basis, the book value of the Target represented by the 60% Equity Interest is RMB30,633,521 (being approximately S$6,739,307 based on the Illustrative Exchange Rate) and the net tangible asset value of the Target represented by the 60% Equity Interest is RMB25,770,502 (being approximately S$5,669,453 based on the Illustrative Exchange Rate).

3.3 Conditions Precedent

Completion of the sale and purchase of the 60% Equity Interest under the SPA ("**Completion**") is conditional upon various conditions having been fulfilled (unless otherwise waived), including:

(a) Shareholders' Approval: the approval of the Shareholders at an EGM for the following matters, and such approval not having been withdrawn or revoked as at the Completion date:

(i) the Proposed Acquisition; and

(ii) the allotment and issue of the Consideration Shares by the Company to the Vendors and/or their respective nominees;

(b) Independent Shareholders' Approval for the Whitewash Resolution: the approval of the majority of the Shareholders who are not involved in or interested in the Proposed Acquisition ("**Independent Shareholders**") being obtained at an EGM for the whitewash resolution ("**Whitewash Resolution**"), being a resolution approved by a majority of the Independent Shareholders in a general meeting of the Company in accordance with the requirements set out in Appendix 1 of the Singapore Code on Take-Overs and Mergers ("**Code**") in respect of the waiver of their rights to receive a mandatory takeover offer from the Vendors and parties acting in concert with the Vendors 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 Vendors and persons acting in concert with the Vendors as a result of the Proposed Acquisition and the transactions contemplated under the SPA, provided that the Vendors and any persons not being Independent Shareholders abstain from voting on such Whitewash Resolution;

(c) SIC Waiver: the grant by the Securities Industry Council of Singapore ("**SIC**") of a waiver (such waiver not having been withdrawn or revoked as at the Completion date) to the Vendors and parties acting in concert with the Vendors, of their obligation to make a mandatory offer under Rule 14 of the Code for the Shares not held by the Vendors and their concert parties, and from having to comply with the requirements of Rule 14 of the Code upon Completion and the allotment and issue of the Consideration

Shares to the Vendors or their respective nominee(s) in accordance with the SPA 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 Vendors and the Purchaser;

(d) SGX-ST Approval for the Circular: the approval of the SGX-ST for the 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 Vendors and the Purchaser;

(e) SGX-ST Approval for Listing and Quotation: the approval-in-principle from SGX-ST having been obtained for the listing and quotation of the Consideration Shares on the Main Board of the SGX-ST, 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;

(f) Approvals and Consents for the Proposed Acquisition: all consents and approvals required under all applicable laws and relevant agreements to give effect to the transaction documents in relation to the Proposed Acquisition ("**Transaction Documents**") and for the purpose of performing the Transaction Documents (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 any Vendor or the Target is a party or by which any Vendor or the Target or any of their assets are bound as well as such consents as may be necessary pursuant to PRC laws and regulations for WHLK and ZZD to be the holders of their respective 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 Completion date and where any consent or approval is subject to conditions, such conditions being satisfactory to the Company in its sole and absolute discretion;

(g) Transaction Documents: all the relevant parties having signed and delivered all the Transaction Documents;

(h) No Breach: 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 any Vendor;

(i) No Material Adverse Change: 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 Vendors (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);

(j) Warranties: the representations, warranties and undertakings made by the Vendors and the Company contained or referred to in the SPA remaining true, accurate and correct in all respects; and

(k) No Event of Default: there being no event of default or potential event of default on any existing debt of the Target.

3.4 **Long Stop Date**

If any of the conditions precedent set out in paragraph 3.3 above is not satisfied or is not waived by the Company and/or the Vendors (as the case may be) on or before 31 December 2015 or such other date as may be mutually agreed by the Company and the Vendors in writing, the SPA shall terminate, save for certain surviving clauses which relate to, *inter alia*, confidentiality and costs.

3.5 **Completion Date**

The Completion date for the Proposed Acquisition shall be a date falling five (5) business days after the date on which the conditions precedent set out in paragraph 3.3 above have been fulfilled or waived by the Company and/or the Vendors (as the case may be) pursuant to the SPA, or such other date as the Company and the Vendors may mutually agree in writing.

Following the transfer of the Consideration Shares to the Company, the Target shall be a subsidiary of the Company.

4. RATIONALE FOR THE PROPOSED ACQUISITION AND BENEFITS TO THE GROUP

The Board is of the view that the Proposed Acquisition will be beneficial to and is in the best interests of the Company and its 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.

Additionally, both the Group and the Target will be able to leverage on each other's strengths, following the completion of the Proposed Acquisition. The Group's strength lies with 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 adopted 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.

5. MAJOR TRANSACTION

5.1 **Relative Figures**

Based on the unaudited consolidated financial statements for the Group for the half year ended 30 June 2015 (being the latest announced consolidated accounts of the Group) ("**Unaudited 1HFY2015 Results**"), the relative figures computed on the bases set out in Rule 1006 of the Listing Manual are as follows:

Listing Rule(1)	**Bases**	**Relative Figures**
1006(b)	The net profits/(loss) attributable to the 60% Equity Interest, compared with the Group's net profits/(loss)	Not meaningful -128%(2)
1006(c)	The aggregate value of the Consideration Shares compared with the market capitalisation of the Company	58%(3)

1006(d)	The number of Consideration Shares to be issued by the Company as Consideration compared with the number of Shares of the Company previously in issue	58%(4)

Notes:

(1) Rule 1006 (a) and (e) are not relevant to the Proposed Acquisition.

(2) Based on the Unaudited Target Financial Accounts, the net profits of the Target for the six-month period ended 30 June 2015 was RMB9,757,041 (approximately S$2,146,528 based on the Illustrative Exchange Rate). As such, the net profits attributable to the 60% Equity Interest amounted to RMB5,854,224 (approximately S$1,287,917 based on the Illustrative Exchange Rate). Based on the Unaudited 1HFY2015 Results, the Group had a net loss of S$1,011,000 for the half year ended 30 June 2015.

(3) In accordance with Rule 1003(3), for the purposes of computing the aggregate value of the 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 11 August 2015) which amounted to S$10,900,939; and

(B) the net asset value of the Consideration Shares (based on the Unaudited 1HFY2015 Results) which amounted to S$$6,739,307.

The Company's market capitalisation (based on an issued share capital of 664,043,548 Shares (the Company does not have treasury shares)) and the volume weighted average price of the Shares on the SGX-ST on 11 August 2015 is S$18,925,241.

(4) Based on a total number of 382,489,084 Consideration Shares proposed to be allotted and issued to the Vendors (or their respective nominee(s)), compared with 664,043,548 Shares (the Company does not have treasury shares) in issue as at 11 August 2015.

5.2 Under Chapter 10 of the Listing Manual, where any relative figure computed on the bases set out in Rule 1006 exceed 20% but is less than 100%, the transaction shall constitute a "major transaction" for the purposes of Chapter 10 of the Listing Manual and be subject to Shareholders' approval. Accordingly, as the relative figures under Rule 1006 (c) and (d) exceed 20% but are less than 100%, the Company will be seeking Shareholders' approval for the Proposed Acquisition at an EGM to be convened.

5.3 The relative figure pursuant to Rule 1006(b) is negative, and the Company is therefore required under Rule 1007(1) to consult with the SGX-ST on this point. Accordingly, the Company will be consulting with the SGX-ST on the Company's understanding that the Proposed Acquisition should be treated as a "major transaction" under Rule 1014 and subject to Shareholders' approval on this basis.

6. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

6.1 **For illustrative purposes only,** the financial effects of the Proposed Acquisition on the Company as set out below are prepared based on the Group's audited consolidated financial statements for the financial year ended 31 December 2014 ("**FY2014**") and subject to the following key assumptions:

(a) the effect of the Proposed Acquisition on the Company's net tangible assets ("**NTA**") per Share is based on the assumption that the Proposed Acquisition had been effected at the end of FY2014; and

(b) the effect of the Proposed Acquisition on the Company's earnings per Share ("**EPS**") for FY2014 is based on the assumption that the Proposed Acquisition had been effected at the beginning of FY2014.

6.2 The financial effects as set out below, which are based on the assumptions set out in paragraph 6.1, are theoretical in nature and are therefore not necessarily indicative of the future financial position and earnings of the Company or the Group.

(a) NTA per Share

	Before Proposed Acquisition	**After Proposed Acquisition**
NTA (S$ '000)	6,102	7,759
Number of Shares	276,684,812 (1)	659,173,896 (2)
NTA per Share (cents)	2.2	1.17

(b) EPS

	Before Proposed Acquisition	**After Proposed Acquisition**
Profits attributable to Shareholders (S$'000)	61	988
Number of Shares	276,684,812 (1)	659,173,896 (2)
EPS (cents)	0.02	0.15

Notes:

(1) Computed on the basis of 276,684,812 issued Shares (the Company does not have treasury shares) which excludes the 387,358,736 rights Shares which were issued on 5 March 2015.

(2) Computed on the basis of an enlarged issued Share capital of 659,173,896 Shares which excludes the 387,358,736 rights Shares which were issued on 5 March 2015.

7. DIRECTORS' SERVICE CONTRACTS

No person is proposed to be appointed to the board of the Company in connection with the Proposed Acquisition, and no director's service contract is proposed to be entered into by the Company with any person in connection with the Proposed Acquisition.

8. INTEREST OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Save as disclosed in this announcement:

(a) none of the directors of the Company has any interest, direct or indirect, in the Proposed Acquisition, save through his shareholding in the Company (if any); and

(b) to the best of the knowledge of the directors of the Company, none of the controlling Shareholders of the Company has any interest, direct or indirect, in the Proposed Acquisition, save through such Shareholders' shareholding in the Company.

9. DOCUMENTS FOR INSPECTION

Copies of the SPA and the valuation report of the Valuer on the Target are available for inspection during normal business hours at the Company's registered office at 123 Woodlands Industrial Park E5, E-Terrace, Singapore 757498 for a period of three (3) months from the date of this announcement.

10. CAUTIONARY STATEMENT

Shareholders and potential investors are advised to exercise caution in the trading of their Shares in the Company. The Proposed Acquisition is subject to, *inter alia*, the fulfilment of the conditions of the SPA. There is no certainty and assurance as at the date of this announcement that the Proposed Acquisition will be completed or that no changes will be made to the terms thereof. Shareholders and potential investors are advised to read this announcement and any further announcements by the Company carefully. Shareholders and potential investors should consult their stockbrokers, solicitors or other professional advisors if they have any doubts about the actions they should take.

By Order of the Board

Thye Kim Meng
Managing Director and Chief Executive Officer
11 August 2015