

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 Shareholders of Darco Water Technologies Limited (the “**Company**”) will be held at 6 Battery Road #10-01 Singapore 049909 on Thursday, 17 March 2016 at 10.00 am for the purpose of considering and, if thought fit, passing the following ordinary resolutions, with or without any modifications:

Ordinary Resolution 1:

The proposed acquisition 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) for the aggregate consideration of S\$10,900,939 from Wuhan Liankai Investment Co., Ltd. (武汉联凯投资有限公司), Hong Kong Meidi Investments Holdings Co., Ltd. (香港美地投资(控股)有限公司) and Mr. Zhang Zhengda (collectively, the “Vendors”)

THAT subject to and contingent upon Resolution 3 being passed:

- (a) approval be and is hereby given to the Company for the acquisition of the 60% Equity Interest from the Vendors (the “**Proposed Acquisition**”) on the terms and subject to the conditions of the sale and purchase agreement dated 11 August 2015 (the “**SPA**”) entered into between the Company and the Vendors; and
- (b) authority be and is hereby given for the directors of the Company (“**Directors**”) to take such steps, enter into all such transactions, arrangements and agreements and execute all such documents as may be necessary or expedient for the purposes of giving effect to the Proposed Acquisition or to give effect to this Resolution or the transactions contemplated by the Proposed Acquisition.

Ordinary Resolution 2:

The allotment and issuance of an aggregate of 19,124,454 Consideration Shares to Wuhan Liankai Investment Co., Ltd. (武汉联凯投资有限公司), Wah Lee Industrial Corp. (华立企业股份有限公司), Jilead Technology Co., Ltd and Zhang Zhengda (collectively, the “Vendor Parties”) at the Issue Price of S\$0.57 for each Consideration Share in satisfaction of the Consideration

THAT subject to and contingent upon Resolution 1 and Resolution 3 being passed, the Directors be and are hereby authorised to issue and allot an aggregate of 19,124,454 new ordinary shares in the capital of the Company (the “**Consideration Shares**”) to the Vendor Parties at an issue price of S\$0.57 per share (“**Issue Price**”).

Ordinary Resolution 3:

The Proposed Whitewash Resolution for the waiver by Independent Shareholders of their right to receive a mandatory offer from the Vendors and their concert parties

THAT subject to and contingent upon Resolution 1 being passed and pursuant to the letter dated 24 November 2015 from the Securities Industry Council, the shareholders of the Company who are not involved in or interested in the Proposed Acquisition, on a poll taken, do hereby unconditionally and irrevocably waive their right to receive a general offer under Rule 14 of the Singapore Code on Take-overs and Mergers (the “**Code**”) for all the shares held by them to be made by the Vendors and their concert parties at the highest price paid or agreed to be paid by the Vendors and their concert parties in the six (6) months prior to the Vendors and their concert parties incurring the mandatory general offer under Rule 14 of the Code, as a result of the acquisition by the Vendors (and their concert parties) of more than 30% of the voting rights in the Company pursuant to the allotment and issue of the Consideration Shares.

By Order of the Board

Thye Kim Meng

Chairman, Managing Director and Chief Executive Officer

24 February 2016

Explanatory Notes:

- (1) A member of the Company (other than a Relevant Intermediary*) entitled to attend and vote at the EGM is entitled to appoint not more than two proxies to attend and vote on his behalf. A proxy need not be a member of the Company.
- (2) If the appointer is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.
- (3) The instrument appointing a proxy or proxies must be deposited at the office of the Company’s Registered Office at 123 Woodlands Industrial Park E5, Woodlands E-Terrace Singapore 757498, not less than 48 hours before the time set for the Extraordinary General Meeting or any postponement or adjournment thereof.
- (4) The instrument appointing a proxy or proxies shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under its seal or under the hand of an officer or attorney duly authorised. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the power of attorney or a duly certified copy thereof must be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.

*A Relevant Intermediary is:

- (a) a banking corporation licensed under the Banking Act (Cap. 19) 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 Futures Act (Cap. 289) and who holds shares in that capacity; or
- (c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), 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 privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Extraordinary General Meeting 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 Extraordinary General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Extraordinary General Meeting (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.

CIRCULAR DATED 24 FEBRUARY 2016

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

IF YOU ARE IN ANY DOUBT AS TO THE 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 all your shares in the capital of Darco Water Technologies Limited (the “**Company**”), you should immediately forward this Circular, the Notice of Extraordinary General Meeting and the accompanying Proxy Form to the purchaser or transferee, or the stockbroker or agent through whom you effected the sale or transfer for onward transmission to the purchaser or transferee.

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 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.



SOLUTIONS TO WATER & WASTE

DARCO WATER TECHNOLOGIES LIMITED

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

CIRCULAR TO SHAREHOLDERS

in relation to:

- (1) THE 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);
- (2) THE PROPOSED ALLOTMENT AND ISSUE OF AN AGGREGATE OF 19,124,454 CONSIDERATION SHARES TO WUHAN LIANKAI INVESTMENT CO., LTD. (武汉联凯投资有限公司), WAH LEE INDUSTRIAL CORP. (华立企业股份有限公司), JILEAD TECHNOLOGY CO., LTD AND ZHANG ZHENGDA AT THE ISSUE PRICE OF S\$0.57 FOR EACH CONSIDERATION SHARE IN SATISFACTION OF THE CONSIDERATION; AND
- (3) THE PROPOSED WHITEWASH RESOLUTION.

Independent Financial Adviser in respect of the Proposed Whitewash Resolution



KGI FRASER SECURITIES PTE. LTD.

(Company Registration No. 195500144H)
(Incorporated in the Republic of Singapore)

Last date and time for lodgement of Proxy Form	:	15 March 2016 at 10.00 am.
Date and time of Extraordinary General Meeting	:	17 March 2016 at 10.00 am.
Place of Extraordinary General Meeting	:	6 Battery Road #10-01 Singapore 049909

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DEFINITIONS

In this Circular, unless the context otherwise requires, the following terms or expressions shall have the following meanings:

Entities in the Proposed Transactions

“Company”	:	Darco Water Technologies Limited
“Enlarged Group”	:	The Group and the Target immediately following the completion of the Proposed Acquisition
“Group”	:	The Company and/or its subsidiaries and “Group Company” refers to any one of them
“HKMI”	:	Hong Kong Meidi Investments Holdings Co., Ltd. (香港美地投资(控股)有限公司)
“Jilead”	:	Jilead Technology Co., Ltd.
“Target”	:	Wuhan Kaidi Water Services Co., Ltd. (武汉凯迪水务有限公司)
“Vendors”	:	WHLK, HKMI and ZZD and “Vendor” refers to any one of them
“Vendor Parties”	:	WHLK, Jilead, Wah Lee and ZZD and “Vendor Party” refers to any one of them
“Wah Lee”	:	Wah Lee Industrial Corp. (华立企业股份有限公司)
“WHLK”	:	Wuhan Liankai Investment Co., Ltd. (武汉联凯投资有限公司)
“ZZD”	:	Mr Zhang Zhengda

Other Companies, Corporations and Organisations

“CDP”	:	The Central Depository (Pte) Limited
“IFA” or “KGI Fraser”	:	KGI Fraser Securities Pte. Ltd., (formerly known as AmFraser Securities Pte. Ltd.), the independent financial advisor in relation to the Proposed Whitewash Resolution
“SGX-ST”	:	Singapore Exchange Securities Trading Limited
“SIC”	:	Securities Industry Council
“Valuer”	:	Ernst and Young Solutions LLP

General

"60% Equity Interest"	:	Has the meaning ascribed to it in Section 1.1 of the Letter to Shareholders
"Announcement"	:	Announcement by the Company dated 11 August 2015
"Board"	:	The board of Directors of the Company for the time being
"Business Day"	:	A day (other than a Saturday, Sunday or gazetted public holiday) on which commercial banks are open for business in Singapore and the PRC
"Circular"	:	This circular to Shareholders dated 24 February 2016
"Code"	:	The Singapore Code on Take-overs and Mergers
"Companies Act"	:	Companies Act (Chapter 50 of Singapore), as amended from time to time
"Completion"	:	Completion of the Proposed Acquisition under the SPA
"Completion Date"	:	Has the meaning ascribed to it in Section 1.1 of the Letter to Shareholders
"Concert Parties Group"	:	Has the meaning ascribed to it in Section 3.2 of the Letter to Shareholders
"Conditions Precedent"	:	Has the meaning ascribed to it in Section 2.6 of the Letter to Shareholders
"Consideration"	:	Has the meaning ascribed to it in Section 2.5 of the Letter to Shareholders
"Consideration Shares"	:	The 19,124,454 new Shares to be allotted and issued by the Company to the Vendor Parties at the Issue Price in satisfaction of the Consideration
"Controlling Shareholder"	:	A person who: (a) holds, directly or indirectly, 15% or more of the total number of Shares (excluding treasury shares) in the Company or the Enlarged Group, as the case may be (unless otherwise excepted by SGX-ST); or (b) in fact exercises control over the Company or the Enlarged Group, as the case may be
"Directors"	:	The directors of the Company for the time being
"EGM"	:	The extraordinary general meeting of the Company, the notice of which is set out in this Circular

“Enlarged Share Capital”	:	The enlarged issued share capital of the Company after the allotment and issue of the Consideration Shares
“EPS”	:	Earnings per share
“FY2014”	:	The financial year ended 31 December 2014
“Hong Kong”	:	The Hong Kong Special Administrative Region of the PRC
“IFA Letter”	:	The letter from the IFA to the Independent Directors as set out in Appendix A to this Circular
“Illustrative Exchange Rate”	:	Has the meaning ascribed to it in Section 2.4 of the Letter to Shareholders
“Independent Directors”	:	Directors who are considered independent for the purposes of making the recommendation to Independent Shareholders in relation to the Proposed Whitewash Resolution
“Independent Shareholders”	:	Shareholders who are not involved in or interested in the Proposed Acquisition
“Independent Valuation Summary Letter”	:	The independent valuation summary letter dated 8 January 2016 prepared by the Valuer, which is a summary of the information contained in the independent valuation report dated 15 May 2015, as set out in Appendix B to this Circular
“Issue Price”	:	S\$0.57, being the issue price for each Consideration Share
“Latest Practicable Date” or “LPD”	:	The latest practicable date prior to the printing of this Circular, being 15 February 2016
“Letter to Shareholders”	:	The “Letter to Shareholders” from the Directors in this Circular
“Listing Manual”	:	The listing manual of the SGX-ST, as amended from time to time
“Long-Stop Date”	:	31 March 2016 or such other date as may be mutually agreed by the Company and the Vendors in writing
“Notice of EGM”	:	The notice of EGM as set out on page 62 of this Circular
“NTA”	:	Net tangible assets
“PRC”	:	People’s Republic of China
“Pre-Consolidation Shares”	:	Ordinary Shares in the capital of the Company prior to completion of the Share Consolidation
“Pre-Consolidation Consideration Shares”	:	The number of consideration shares as set out in the SPA and prior to the Share Consolidation, being 382,489,084 Pre-Consolidation Shares

“Proposed Acquisition”	:	The proposed acquisition of the 60% Equity Interest by the Company from the Vendors for the Consideration to be satisfied by the allotment and issue of 19,124,454 Consideration Shares to the Vendor Parties at the Issue Price for each Consideration Share in satisfaction of the Consideration
“Proposed Transactions”	:	<p>The proposed transactions as set out in this Circular comprising:</p> <ul style="list-style-type: none"> (a) the Proposed Acquisition; (b) the proposed allotment and issue of the Consideration Shares to the Vendor Parties at the Issue Price in satisfaction of the Consideration; and (c) the Proposed Whitewash Resolution
“Proposed Whitewash Resolution”	:	A whitewash 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 Code in respect of the waiver of their rights to receive a mandatory takeover offer from the Vendor Parties and parties acting in concert with the Vendor Parties 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 Parties and persons acting in concert with the Vendor Parties as a result of the Proposed Acquisition and the transactions contemplated under the SPA, provided that the Vendor Parties and any persons not being Independent Shareholders abstain from voting on such whitewash resolution
“Proxy Form”	:	The proxy form in respect of the EGM as set out in this Circular
“Register of Members”	:	The register of members of the Company
“Securities Account”	:	Securities account maintained by a Depositor with CDP but does not include a securities sub-account
“Securities and Futures Act”	:	Securities and Futures Act (Chapter 289 of Singapore), as amended from time to time
“SGXNET”	:	A system network used by listed companies to send information and announcement to the SGX-ST or any other system networks prescribed by the SGX-ST
“Shares”	:	Ordinary shares in the capital of the Company
“Share Consolidation”	:	Has the meaning ascribed to it in Section 1.1 of the Letter to Shareholders

“Shareholders”	:	Registered holders of Shares, except that where the registered holder is CDP, the term “Shareholders” shall, in relation to such Shares, mean the Depositors whose securities accounts maintained with CDP are credited with Shares
“SIC Conditions”	:	Has the meaning ascribed to it in Section 3.2 of the Letter to Shareholders
“SIC Waiver”	:	Has the meaning ascribed thereto in Section 2.6(c) of the Letter to Shareholders
“SPA”	:	Has the meaning ascribed to it in Section 1.1 of the Letter to Shareholders
“Substantial Shareholder”	:	A person who has an interest in one or more voting shares of a company and the total votes attached to those shares is not less than 5% of the total votes attached to all the voting shares of that company
“Supplemental Agreement”	:	Has the meaning ascribed to it in Section 1.1 of the Letter to Shareholders
“Transaction Documents”	:	Has the meaning ascribed to it in Section 2.6(f) of the Letter to Shareholders
“Unaudited 1H FY2015 Results”	:	Has the meaning ascribed to it in Section 2.8 of the Letter to Shareholders
“Unaudited Target Financial Accounts”	:	Has the meaning ascribed to it in Section 2.4 of the Letter to Shareholders
“VWAP”	:	Has the meaning ascribed to it in Section 2.5 of the Letter to Shareholders

Currencies and Units of Measurements

“%” or “per cent.”	:	Per centum or percentage
“S\$” and “cents”	:	Singapore dollars and cents, respectively
“RMB”	:	Renminbi

The terms “Depositor”, “Depository Agent” and “Depository Register” shall have the same meanings ascribed to them, respectively, in Section 130A of the Companies Act.

The terms “acting in concert”, “concert parties” and “associates” shall have the meanings ascribed to them, respectively, in the Code.

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

The term “interest” shall have the meaning ascribed to it in Section 7 of the Companies Act.

The terms “interested person”, “interested person transaction” and “Official List” shall have the meanings ascribed to them, respectively, in the Section headed “Definitions and Interpretation” of the Listing Manual.

References to Appendices are to appendices to this Circular. References to Sections are to sections of the Letter to Shareholders.

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.

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

Any reference in this Circular to Shares being allotted to a person includes allotment to CDP for the account of that person.

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

Any discrepancies in tables included herein between the amounts listed and the totals thereof are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Certain names with Chinese characters have been translated into English names for the convenience of Shareholders. Such translations may not be registered with the relevant PRC authorities and should not be construed as representing the Chinese characters. In the event of any inconsistency between the official Chinese names and the translated English names, the official Chinese names shall prevail.

LETTER TO SHAREHOLDERS

DARCO WATER TECHNOLOGIES LIMITED

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

Directors:

Mr Thye Kim Meng (*Chairman, Managing Director
and Chief Executive Officer*)
Ms Heather Tan Chern Ling (*Executive Director*)
Mr Tay Lee Chye Lester (*Lead Independent Director*)
Mr Ross Yu Limjoco (*Independent Director*)
Mr Tay Von Kian (*Independent Director*)

Registered Office:

123 Woodlands Industrial Park E5
Woodlands E-Terrace
Singapore 757498

24 February 2016

To: The Shareholders of Darco Water Technologies Limited.

Dear Sir/Madam

- (1) **The Proposed Acquisition of 60% Equity Interest in the registered capital of the Target for the aggregate consideration of S\$10,900,939;**
- (2) **The proposed allotment and issue of an aggregate of 19,124,454 Consideration Shares to the Vendor Parties at the Issue Price of S\$0.57 for each Consideration Share in satisfaction of the Consideration; and**
- (3) **The Proposed Whitewash Resolution.**

1. INTRODUCTION

1.1 Background

On 11 August 2015, the Company announced that it had on 11 August 2015 entered into a conditional sale and purchase agreement (“SPA”) with the Vendors in respect of the Proposed Acquisition, pursuant to which the Company had agreed to acquire, and the Vendors had agreed to sell, 60% of the total equity interest in the registered capital of the Target (“**60% Equity Interest**”) for a consideration of S\$10,900,939, on the terms of the SPA.

On 13 August 2015, the Company announced a corrigendum to the Announcement to clarify the information of HKMI.

On 28 December 2015, the Company and the Vendors entered into a supplemental agreement to the SPA (“**Supplemental Agreement**”), pursuant to which the long stop date for the satisfaction of the conditions precedent set out in Clause 3.1 of the SPA has been extended from 31 December 2015 to 31 March 2016.

The Announcement made by the Company on 11 August 2015, the corrigendum to the Announcement made by the Company on 13 August 2015 and the announcement made by the Company on 28 December 2015 in relation to the Supplemental Agreement are available on the SGXNET.

Pursuant to the terms of the SPA, Completion shall take place on a date falling five (5) Business Days after the date on which the last of the outstanding conditions precedent set out in Section 2.6 below have been fulfilled or waived by the Company and/or the Vendors

(as the case may be), or such other date as the Vendors and the Company may mutually agree in writing (“**Completion Date**”). Following the transfer of the 60% Equity Interest to the Company, the Target shall be a subsidiary of the Company.

Further information on the SPA is set out in Section 2 of this Letter to Shareholders.

On 18 September 2015, the Company announced a proposed share consolidation to consolidate every twenty (20) Pre-Consolidation Shares in the capital of the Company into one (1) Share (the “**Share Consolidation**”). The Share Consolidation has been completed on 1 December 2015.

Further information on the Share Consolidation is set out in Section 8 of this Letter to Shareholders.

In view of the completion of the Share Consolidation, the Company and the Vendors have reached further agreement that the number of Consideration Shares to be allotted and issued to the Vendor Parties shall be revised to 19,124,454 Shares, being 10,887,118 for WHLK, 5,737,336 for HKMI and 2,500,000 for ZZD, at the Issue Price of S\$0.57 for each Consideration Share.

On 25 November 2015, HKMI sent a nomination letter to the Company and the Vendors pursuant to the terms of the SPA, nominating its shareholders, Wah Lee and Jilead to be the recipient and holder of 4,589,869 and 1,147,467 Consideration Shares respectively.

1.2 Purpose of Circular

The Proposed Acquisition is subject to, *inter alia*, the approval of the Shareholders at an EGM in accordance with Chapters 8 and 10 of the Listing Manual.

The purpose of this Circular is to provide Shareholders with information pertaining to the Proposed Transactions for which the approval of the Shareholders will be sought at the EGM. Specifically, approval will be sought by way of ordinary resolutions for the Proposed Transactions.

Shareholders should note that the passing of Resolution 2 is conditional on the passing of Resolution 1 and Resolution 3 and the passing of Resolution 1 is conditional on the passing of Resolution 3.

This Circular has been prepared solely for the purposes outlined above and may not be relied upon by any persons (other than the Shareholders to whom this Circular is despatched to by the Company) or for any other purpose.

2. THE PROPOSED ACQUISITION AND THE PROPOSED ALLOTMENT

2.1 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 develop competitiveness 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. The Target is qualified as a high-tech enterprise in the PRC and it holds various permits and

licenses required to bid for projects in the PRC. By relying on the Target's permits, licenses and its operational track record and capabilities, the Company will be able to develop its presence in the PRC market more effectively.

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's strengths lie in its cost efficiency, technology and industry reputation in the PRC built through its successful track record in completing projects in the PRC. 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. It has core technologies capable of achieving zero discharge of wastewater, sea water desalinization and purification of industrial water; it has also accumulated vast experience in carrying out engineering projects relating to water treatment in China.

2.2 Information on the Target

Based on information provided to the Company by the Vendors: the Target is a water treatment and management specialist 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.

The Target has 22 years of track record of supplying water and waste treatment systems and has carried out over 600 projects to-date. As at 31 December 2015, the Target has 16 ongoing projects in the PRC covering 14 provinces in the PRC, including the construction of a seawater desalination system for a 2*1000MW ultra-supercritical coal-fired power generation plant for China Resources Power Holdings Co., Ltd (Haifeng branch). The total contractual value of the PRC projects that are currently under construction amounts to approximately RMB491.93 million as at 30 September 2015. 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.

2.3 Information on the Vendors, Wah Lee and Jilead

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	55.0%	34.2%
(b) HKMI	30.0%	18.0%
(c) ZZD	15.0%	7.8%
Total	100.0%	60.0%

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. As at the date of the Announcement, Mr Huang Weidong (黄卫东) and Mr Zeng Wei (曾伟), both PRC nationals, own approximately 50% of HKMI's issued share capital. As at the date of this Circular, Jilead and Wah Lee own approximately 20% and 80% of HKMI's issued share capital respectively. The executive director of HKMI is Mr Zhang Youwen.

Wah Lee

Wah Lee is a company incorporated in Taiwan, and is primarily engaged in development and provision of industrial materials. It is listed on the Taiwan Stock Exchange Corporation with diversified shareholders, and its largest shareholder is Mr Chang Jui Chin (张瑞钦), with approximately 6.44% shareholding. Mr Chang is also the Chairman and CEO of Wah Lee

Jilead

Jilead is a company incorporated in Taiwan, The major shareholders of Jilead are Gshine Welltech Co., Ltd. (40%), Golden Touch Industrial Corp. (30%) and Great Pride Offshore Inc. (10%), with the remaining shareholding held by five Taiwanese individuals.

ZZD

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

The Vendors, Wah Lee and Jilead 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. The Proposed Acquisition is therefore not an interested person transaction for the purposes of Chapter 9 of the Listing Manual.

2.4 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 2017 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**”) (being the latest available financial statement of the Target prior to the Announcement), 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).

Please refer to the Independent Valuation Summary Letter annexed in Appendix B titled “Independent Valuation Summary Letter” to this Circular. **Shareholders are advised to read the Independent Valuation Summary Letter carefully.**

2.5 Consideration

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

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 Section 2.1 of this Letter to Shareholders above; and (e) current prevailing industry and market conditions, and also with reference to the valuation of the Target by the Valuer.

Pursuant to the SPA, 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 Pre-Consolidation Shares as determined in accordance with the following formula:

$$CS = C \div I$$

where:

CS (at the time of signing of the SPA) is the number of Pre-Consolidation 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 Section 2.4 of this Letter to Shareholders above); and

I is the issue price for each Pre-Consolidation Consideration Share equivalent to S\$0.0285, accordingly, CS = 217,742,359 for WHLK, 114,746,725 for HKMI and 50,000,000 for ZZD.

Based on the volume weighted average price of the Pre-Consolidation Consideration 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 (as set out in the SPA) is the same as the VWAP.

In view of the completion of the Share Consolidation, the Company and the Vendors have reached further agreement that the number of Consideration Shares to be allotted and issued to the Vendor Parties shall be revised to 19,124,454 Shares, being 10,887,118 for WHLK, 5,737,336 for HKMI and 2,500,000 for ZZD, at the Issue Price of S\$0.57 for each Consideration Share. On 25 November 2015, HKMI nominated its shareholders, Wah Lee and Jilead, to be allotted and issued 4,589,869 and 1,147,467 Shares respectively.

The Consideration Shares represent approximately 36.55% of the Enlarged Share Capital of the Company, comprising 52,326,632 Shares after the Share Consolidation and the allotment and issuance of the 19,124,454 Consideration Shares. 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 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.

2.6 Conditions Precedent

Completion of the Proposed Acquisition under the SPA is conditional upon various conditions (the “**Conditions Precedent**”) 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 Independent Shareholders being obtained at an EGM for the Proposed Whitewash Resolution;
- (c) SIC Waiver: the grant by the SIC of a waiver (“**SIC 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.

2.7 Long-Stop Date

If any of the conditions precedent set out in Section 2.6 of this Letter to Shareholders above is not satisfied or is not waived by the Company and/or the Vendors (as the case may be) on or before 31 March 2016 or such other date as may be mutually agreed by the Company and the Vendors in writing, the SPA (as amended by the Supplemental Agreement) shall terminate, save for certain surviving clauses which relate to, *inter alia*, confidentiality and costs.

2.8 The Proposed Acquisition as a “major transaction”

For the purposes of Chapter 10 of the Listing Manual, 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	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 ⁽¹⁾
1006(b)	The net profits/(loss) attributable to the 60% Equity Interest, compared with the Group’s net profits/(loss)	Not meaningful ⁽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⁾
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 ⁽⁵⁾

Notes:

- (1) This basis is not applicable as the Company will not be disposing of any assets pursuant 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. The relative figure computed under Rule 1006(b) is not meaningful given that it is negative.
- (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 the date the SPA was executed, but assuming the completion of the Share Consolidation prior to the execution of the SPA) 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 Pre-Consolidation Shares (the Company does not have treasury shares)) and the volume weighted average price of the Pre-Consolidation Shares on the SGX-ST on the date the SPA was executed is S\$18,925,241.

- (4) Based on a total number of 19,124,454 Consideration Shares proposed to be allotted and issued to the Vendors (or their respective nominee(s)), compared with 33,202,177 Shares (the Company does not have treasury shares) in issue as at the date the SPA was executed, but assuming the completion of the Share Consolidation prior to the execution of the SPA.
- (5) This basis is not applicable as the Proposed Acquisition does not relate to a disposal of mineral, oil or gas assets and the Company is not a mineral, oil and gas company.

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 the EGM.

2.9 SGX-ST Approval-in-Principle

On 12 February 2016, the SGX-ST granted in-principle approval for the listing and quotation of the Consideration Shares. The in-principle approval granted is subject to, amongst others, the following conditions:

- (a) compliance with the listing requirements of the SGX-ST; and
- (b) Shareholders’ approval being obtained for the issuance of the Consideration Shares.

It should be noted that the in-principle approval granted by the SGX-ST to the Company is not to be taken as an indication of the merits of any of the Proposed Transactions, the Group, the Target, the Enlarged Group, the Shares and the Consideration Shares.

3. THE PROPOSED WHITEWASH RESOLUTION

3.1 General offer requirement under the Code

Pursuant to Rule 14.1 of the Code, where (a) any person acquires (whether by a series of transactions over a period of time or not) Shares which (taken together with Shares held or acquired by persons acting in concert with him) carry 30% or more of the voting rights of the Company; or (b) any person who, together with persons acting in concert with him, holds not less than 30% but not more than 50% of the voting rights of the Company, or any person acting in concert with him, acquires in any six (6) months additional Shares carrying more than 1% of the voting rights of the Company, such person and his concert parties will be required to make a mandatory general offer for all the Shares not held by them.

As at the Latest Practicable Date, the Concert Parties Group does not hold any Shares or instruments convertible into, rights to subscribe for or options in respect of any Shares in the Company.

Upon completion of the allotment and issue of the Consideration Shares pursuant to the Proposed Acquisition, the Vendor Parties will hold 19,124,454 Shares, representing approximately 36.55% of the Enlarged Share Capital. In such event, the Vendors will be required under the Code to make a mandatory general offer for the Shares not already held by it pursuant to Rule 14.1 of the Code unless such obligation is waived by the SIC and the Proposed Whitewash Resolution is approved by the Independent Shareholders at the EGM.

Completion shall be conditional upon, *inter alia*:

- (i) the grant by the SIC of the SIC Waiver; and
- (ii) the approval of the majority of the Independent Shareholders being obtained at the EGM for the Proposed Whitewash Resolution.

3.2 SIC Waiver

The SIC had, on 24 November 2015, waived the requirement for the Vendors to make a general offer for the Company under Rule 14.1 of the Code in the event the Vendors and the parties acting in concert with the Vendors (collectively, the **“Concert Parties Group”**) increase their shareholdings in the Company to 36.55% based on the Enlarged Share Capital as a result of the Vendors acquiring the Consideration Shares under the Proposed Acquisition, subject to the following conditions (**“SIC Conditions”**):

- (a) a majority of holders of voting rights of the Company approve at a general meeting, before the issue of the Consideration Shares, the Proposed Whitewash Resolution by way of a poll to waive their rights to receive a general offer from the Vendors;
- (b) the Proposed Whitewash Resolution is separate from other resolutions;
- (c) the Vendors and their Concert Parties Group, as well as parties not independent of them abstain from voting on the Proposed Whitewash Resolution;
- (d) the Vendors and their Concert Parties Group did not acquire and are not to acquire any Shares or instruments convertible into and options in respect of Shares (other than subscriptions for, rights to subscribe for, instruments convertible into or options in respect of new Shares which have been disclosed in this Circular):
 - (i) during the period between the Announcement and the date Shareholders' approval is obtained for the Proposed Whitewash Resolution; and
 - (ii) in the six (6) months prior to the Announcement but subsequent to negotiations, discussions or reaching of understandings or agreements with the directors of the Company in relation to such issue;
- (e) the Company appoints an independent financial adviser to advise its Independent Shareholders on the Proposed Whitewash Resolution;
- (f) the Company sets out clearly in this Circular:
 - (i) details of the Proposed Acquisition;
 - (ii) the dilution effect to existing holders of voting rights of the Company upon the Proposed Acquisition of the Consideration Shares by the Vendors;
 - (iii) the number and percentage of voting rights in the Company as well as the number of instruments convertible into, rights to subscribe for and options in respect of Shares held by the Vendors and their Concert Parties Group as at the Latest Practicable Date;
 - (iv) the number and percentage of voting rights to be issued to the Vendor as a result of the Proposed Acquisition; and
 - (v) specific and prominent reference to the fact that shareholders, by voting for the Proposed Whitewash Resolution, are waiving their rights to a general offer from the Vendors at the highest price paid by the Vendors and their Concert Parties Group for the Shares in the past six (6) months preceding the commencement of the offer;

- (g) the Circular states that the waiver granted by SIC to the Vendors from the requirement to make a general offer under Rule 14 is subject to the conditions stated in 3.2(a) to (f) above;
- (h) the Company obtains SIC's approval in advance for those parts of the Circular that refer to the Proposed Whitewash Resolution; and
- (i) to rely on the Proposed Whitewash Resolution, the Proposed Acquisition of the Consideration Shares by the Vendors must be completed within three (3) months of the approval of the Proposed Whitewash Resolution.

3.3 The Proposed Whitewash Resolution

Independent Shareholders are requested to vote on a poll on the Proposed Whitewash Resolution set out as an ordinary resolution in the Notice of EGM.

Shareholders should note that:

- (a) approval of the Proposed Whitewash Resolution is a condition precedent to Completion. If Independent Shareholders do not vote in favour of the Proposed Whitewash Resolution, the Proposed Acquisition will not take place;
- (b) by voting in favour of the Proposed Whitewash Resolution, Shareholders are waiving their rights to a general offer from the Concert Parties Group at the highest price paid by the Concert Parties Group for the Shares in the past six (6) months preceding the commencement of the offer; and
- (c) by voting for the Proposed Whitewash Resolution, the Shareholders could be foregoing the opportunity to receive a general offer from another person who may be discouraged from making a general offer in view of the potential dilution effect of the issue of the Consideration Shares.

3.4 Potential Dilution

As a result of the Proposed Acquisition, the collective shareholding interests of the Independent Shareholders in the Company will be diluted. Such dilution effects are illustrated under Section 5 of this Letter to Shareholders below which sets out *inter alia* the changes in the shareholding structure of the Company after the Proposed Acquisition.

3.5 Advice of the Independent Financial Adviser

KGI Fraser Securities Pte. Ltd., formerly known as AmFraser Securities Pte. Ltd., has been appointed as the independent financial adviser to the Independent Directors in relation to the Proposed Whitewash Resolution.

The IFA Letter setting out the IFA's advice to the Independent Directors in full is reproduced in Appendix A of this Circular.

Taking into consideration the factors set out in the IFA Letter, the information available to the IFA as at the Latest Practicable Date and subject to the qualifications and assumptions set out in the IFA Letter, the IFA is of the opinion that, on balance, (i) the terms of the Proposed Acquisition, being the subject of the Proposed Whitewash Resolution, are fair and reasonable and (ii) the Proposed Whitewash Resolution is not prejudicial to the interests of

the Independent Shareholders. **Accordingly, the IFA has advised the Independent Directors to recommend that the Independent Shareholders vote in favour of the Proposed Whitewash Resolution.**

Shareholders are advised to read and consider the IFA Letter in its entirety as reproduced in Appendix A of this Circular and consider carefully the recommendations of the Independent Directors for the Proposed Whitewash Resolution set out in Section 9 of this Circular.

4. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

4.1 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 FY2014 and subject to the following key assumptions:

- (a) the effect of the Proposed Acquisition on the Company's NTA per Share is based on the assumption that the Share Consolidation and the Proposed Acquisition had been effected at the end of FY2014; and
- (b) the effect of the Proposed Acquisition on the Company's EPS for FY2014 is based on the assumption that the Share Consolidation and the Proposed Acquisition had been effected at the beginning of FY2014.

4.2 The financial effects as set out below, which are based on the assumptions set out in Section 4.1 of this Letter to Shareholders, 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	13,834,241 ⁽¹⁾	32,958,695 ⁽²⁾
NTA per Share (cents)	44.10	23.54

(b) EPS

	Before Proposed Acquisition	After Proposed Acquisition
Profits attributable to Shareholders (S\$'000)	61	988
Number of Shares	13,834,241 ⁽¹⁾	32,958,695 ⁽²⁾
EPS (cents)	0.44	3.00

Notes:

- (1) Computed on the basis of 13,834,241 issued Shares (the Company does not have treasury shares) which excludes the 387,358,736 rights Pre-Consolidation Shares which were issued on 5 March 2015.
- (2) Computed on the basis of an enlarged issued capital of 32,958,695 Shares which excludes the 387,358,736 rights Pre-Consolidation Shares which were issued on 5 March 2015.

5. CHANGES TO SHAREHOLDING

Details of the changes in the shareholding structure of the Company and the Target after the Proposed Acquisition are set out in the tables below.

5.1 The Company

	Before the Proposed Acquisition ⁽¹⁾			Immediately after the Proposed Acquisition ⁽²⁾		
	Direct	Deemed		Direct	Deemed	
	Number of Shares	% of total issued Shares	Number of Shares	Number of Shares	% of total issued Shares	Number of Shares
Existing Directors						
Thye Kim Meng ⁽³⁾	7,155,485	21.55	—	7,155,485	13.67	—
Heather Tan Chern Ling ⁽⁴⁾	8,160	0.02	—	8,160	0.01	—
Tay Lee Chye Lester	—	—	—	—	—	—
Ross Yu Limjoco	—	—	—	—	—	—
Tay Von Kian	—	—	—	—	—	—
Substantial Shareholders (other than existing Directors)						
Robert Alexander Stone ⁽⁵⁾	5,400,000	16.26	—	5,400,000	10.32	—
Vendor Parties						
WHLK	—	—	—	10,887,118	20.81	—
Wah Lee	—	—	—	4,589,869	8.77	—
Jilead	—	—	—	1,147,467	2.19	—
ZZD	—	—	—	2,500,000	4.78	—
Sub-total	—	—	—	19,124,454	36.55	—
Other Shareholders	20,638,532	62.17	—	20,638,532	39.45	—
Total	33,202,177	100.00	—	52,326,631	100.00	—

Notes:

- (1) As at the Latest Practicable Date, based on the 33,202,177 Shares.
- (2) Based on the Enlarged Share Capital of 52,326,632 Shares.
- (3) The number of shares held by Thye Kim Meng is as at the Latest Practicable Date.
- (4) The number of shares held by Heather Tan Chern Ling is as at the Latest Practicable Date.
- (5) The number of shares held by Robert Alexander Stone is as at the Latest Practicable Date.

5.2 The Target

	Amount of Equity Interest in the Target before the Proposed Acquisition (%)	Amount of Equity Interest in the Target Immediately after the Proposed Acquisition (%)
Vendors		
WHLK	55	34.2
HKMI	30	18
ZZD	15	7.8
The Company	–	60
Total	100	100

6. 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.

7. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

- (a) None of the Directors 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, 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.

8. SHARE CONSOLIDATION

On 18 September 2015, the Company announced that it proposes to undertake a share consolidation exercise to consolidate every twenty (20) Pre-Consolidation Shares in the capital of the Company into one (1) Share. Pursuant to the Share Consolidation, each Shareholder of the Company will receive one (1) Share for every twenty (20) Pre-Consolidation Shares held as at the books closure date to be determined by the Directors in their absolute discretion as they deem fit, fractional entitlements to be disregarded.

The Share Consolidation was subject to, *inter alia*, the following:

- (a) the approval of Shareholders for the Share Consolidation at an extraordinary general meeting; and
- (b) the in-principle approval of the SGX-ST for the dealing in, listing of and quotation for the Shares on the Mainboard of the SGX-ST.

Following the completion of the Share Consolidation, the Company will have an issued and paid-up share capital of S\$45,119,534 comprising approximately 33,202,177 Shares.

On 16 October 2015, the Company announced that it had received the in-principle approval of SGX-ST for the dealing in, listing of and quotation for the Shares on the Mainboard of the SGX-ST. The in-principle approval of the SGX-ST was subject to the following conditions:

- (a) the approval of Shareholders for the proposed Share Consolidation at an extraordinary general meeting to be convened; and
- (b) compliance with the listing requirements of the SGX-ST.

On 28 October 2015, a circular was released to the Shareholders.

An extraordinary general meeting was convened on 19 November 2015 and the Company announced that all resolutions in relation to the Share Consolidation were duly passed.

On 20 November 2015, the Company announced the notice of books closure for the Share Consolidation.

On 1 December 2015, the Company announced the completion of the Share Consolidation.

9. DIRECTORS' RECOMMENDATIONS

9.1 Proposed Transactions

Having considered and reviewed, amongst other things, the terms and conditions, rationale and financial effects of the Proposed Transactions set out in this Circular, the Directors are of the opinion that:

- (a) the Proposed Acquisition; and
- (b) the proposed allotment and issue of the Consideration Shares;

are in the interest of the Company. Accordingly, the Directors recommend that Shareholders vote in favour thereof.

9.2 Proposed Whitewash Resolution

The Directors, being all Independent Directors, having considered and reviewed, amongst other things, the advice from the IFA, the terms and conditions, rationale and financial effects of the Proposed Transactions and all other relevant information set out in this Circular, concur with the advice given by the IFA in respect of the Proposed Whitewash Resolution and accordingly they recommend that the Independent Shareholders vote in favour of the Proposed Whitewash Resolution.

10. EXTRAORDINARY GENERAL MEETING

The EGM, notice of which is set out in this Circular, will be held at 6 Battery Road #10-01 Singapore 049909 on 17 March 2016 at 10.00 am for the purpose of considering and, if thought fit, passing with or without amendments, the ordinary resolutions set out in the Notice of EGM.

11. ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders who are unable to attend the EGM and who wish to appoint a proxy to attend and vote on their behalf should complete, sign and return the relevant proxy form in accordance with the instructions printed thereon as soon as possible and, in any event, so

as to reach the office of the Company at 123 Woodlands Industrial Park E5, E-Terrace, Singapore 757498, not less than 48 hours before the time set for the EGM. The completion and sending of the Proxy Form by a Shareholder does not preclude him from attending and voting in person at the EGM if he wishes to do so, in place of his proxy.

Depositors with Shares credited to their Securities Accounts who wish to attend and vote at the EGM or appoint a proxy, must complete, sign and return the relevant Proxy Form completed by CDP in accordance with the instructions printed thereon as soon as possible and in any event, so as to reach the office of the Company at 123 Woodlands Industrial Park E5, E-Terrace, Singapore 757498, not less than 48 hours before the time set for the EGM. A Depositor with Shares credited to his Securities Account shall not be entitled to attend the EGM and to speak and vote thereat or appoint a proxy unless his name appears on the Depository Register maintained by the CDP at least 72 hours before the time set for the EGM.

12. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Circular (other than the information relating to the Target and the Vendors and the information set out in Appendices A and B) 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 Transactions and the Group, and the Directors are not aware of any facts the omission of which would make any statement in this Circular misleading.

Where information in this 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 this Circular in its proper form and context.

13. CONSENTS

KGI Fraser Securities Pte. Ltd., the IFA, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion herein of its name, the IFA's advice in respect of the Proposed Whitewash Resolution and the IFA Letter set out in Appendix A to this Circular, and all references thereto in the form and context in which they appear in this Circular to act in such capacity in relation to this Circular.

Ernst and Young Solutions LLP, the Valuer, has given and have not withdrawn its written consent to the issue of this Circular with the inclusion of its names, the Independent Valuation Summary Letter set out in Appendix B to this Circular, and all references thereto in the form and context in which they appear in this Circular to act in such capacity in relation to this Circular.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the office of the Company at 123 Woodlands Industrial Park E5, E-Terrace, Singapore 757498 during normal business hours from the date of this Circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the SPA;
- (c) the IFA Letter;

- (d) the Independent Valuation Summary Letter and the independent valuation report dated 15 May 2015;
- (e) the letters of consent referred to in Section 13 titled “Consents” of the Letter to Shareholders;
- (f) the Unaudited 1HFY2015 Results; and
- (g) the Unaudited Target Financial Accounts.

15. 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 Letter to Shareholders 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 Circular 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.

16. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this Circular.

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
24 February 2016

LETTER FROM THE IFA TO THE INDEPENDENT DIRECTORS IN RESPECT OF THE PROPOSED WHITEWASH RESOLUTION

KGI FRASER SECURITIES PTE. LTD.

(Company Registration Number: 195500144H)
(Incorporated in the Republic of Singapore)
4 Shenton Way
#13-01 SGX Centre 2
Singapore 068807

24 February 2016

To: The Independent Directors of Darco Water Technologies Limited
(considered independent for the purposes of making the recommendation to
Independent Shareholders in relation to the Proposed Whitewash Resolution)

Mr Thye Kim Meng	(Chairman, Managing Director and Chief Executive Officer)
Ms Heather Tan Chern Ling	(Executive Director)
Mr Tay Lee Chye Lester	(Lead Independent Director)
Mr Ross Yu Limjoco	(Independent Director)
Mr Tay Von Kian	(Independent Director)

Dear Sirs,

**THE PROPOSED WHITEWASH RESOLUTION FOR THE WAIVER OF THE RIGHTS OF THE
INDEPENDENT SHAREHOLDERS OF THE COMPANY TO RECEIVE A MANDATORY
GENERAL OFFER FROM THE CONCERT PARTIES GROUP FOR ALL THE ISSUED SHARES
IN THE CAPITAL OF DARCO WATER TECHNOLOGIES LIMITED NOT ALREADY OWNED OR
CONTROLLED BY THE CONCERT PARTIES GROUP AS A RESULT OF THE PROPOSED
ACQUISITION**

Unless otherwise defined or the context otherwise requires, all terms used in this IFA Letter shall have the same meanings as defined in the Circular.

1. INTRODUCTION

On 11 August 2015, the Company announced that it had on 11 August 2015 entered into a conditional sale and purchase agreement ("**SPA**") with the Vendors in respect of the Proposed Acquisition, pursuant to which the Company had agreed to acquire, and the Vendors had agreed to sell, 60% of the total equity interest in the registered capital of the Target ("**60% Equity Interest**") for a consideration of S\$10,900,939, on the terms of the SPA.

On 13 August 2015, the Company announced a corrigendum to the Announcement to clarify the information of HKMI.

On 28 December 2015, the Company and the Vendors entered into a supplemental agreement to the SPA ("**Supplemental Agreement**"), pursuant to which the long stop date for the satisfaction of the conditions precedent set out in Clause 3.1 of the SPA has been extended from 31 December 2015 to 31 March 2016.

The Announcement made by the Company on 11 August 2015, the corrigendum to the Announcement made by the Company on 13 August 2015 and the announcement made by the Company on 28 December 2015 in relation to the Supplemental Agreement are available on the SGXNET.

Pursuant to the terms of the SPA, Completion shall take place on a date falling five (5) Business Days after the date on which the last of the outstanding conditions precedent set out in Section 2.6 in the Circular have been fulfilled or waived by the Company and/or the Vendors (as the case may be), or such other date as the Vendors and the Company may mutually agree in writing ("**Completion Date**"). Following the transfer of the 60% Equity Interest to the Company, the Target shall be a subsidiary of the Company.

On 18 September 2015, the Company announced a proposed share consolidation to consolidate every twenty (20) Pre-Consolidation Shares in the capital of the Company into one (1) Share (the "**Share Consolidation**"). The Share Consolidation has been completed on 1 December 2015.

In view of the completion of the Share Consolidation, the Company and the Vendors have reached further agreement that the number of Consideration Shares to be allotted and issued to the Vendor Parties shall be revised to 19,124,454 Shares, being 10,887,118 for WHLK, 5,737,336 for HKMI and 2,500,000 for ZZD, at the Issue Price of S\$0.57 for each Consideration Share.

On 25 November 2015, HKMI sent a nomination letter to the Company and the Vendors pursuant to the terms of the SPA, nominating its shareholders, Wah Lee and Jilead to be the recipient and holder of 4,589,869 and 1,147,467 Consideration Shares respectively.

Pursuant to Rule 14.1 of the Code, where (a) any person acquires (whether by a series of transactions over a period of time or not) Shares which (taken together with Shares held or acquired by persons acting in concert with him) carry 30% or more of the voting rights of the Company; or (b) any person who, together with persons acting in concert with him, holds not less than 30% but not more than 50% of the voting rights of the Company, or any person acting in concert with him, acquires in any six (6) months additional Shares carrying more than 1% of the voting rights of the Company, such person and his concert parties will be required to make a mandatory general offer for all the Shares not held by them.

As at the Latest Practicable Date, the Concert Parties Group does not hold any Shares or instruments convertible into, rights to subscribe for or options in respect of any Shares in the Company.

Upon completion of the allotment and issue of the Consideration Shares pursuant to the Proposed Acquisition, the Vendor Parties will hold 19,124,454 Shares, representing approximately 36.55% of the Enlarged Share Capital. In such event, the Vendors will be required under the Code to make a mandatory general offer for the Shares not already held by it pursuant to Rule 14.1 of the Code unless such obligation is waived by the SIC and the Proposed Whitewash Resolution is approved by the Independent Shareholders at the EGM.

The SIC had, on 24 November 2015, waived the requirement for the Vendors to make a general offer for the Company under Rule 14.1 of the Code in the event the Concert Parties Group increase their shareholdings in the Company to 36.55% based on the Enlarged Share Capital as a result of the Vendors acquiring the Consideration Shares under the Proposed Acquisition, subject to the satisfaction of certain conditions as set out in Section 3.2 of the Circular, including, inter alia, (i) the approval of the Proposed Whitewash Resolution by the majority of the Independent Shareholders voting by way of a poll to waive their rights to

receive mandatory offer from the Vendors at the EGM; and (ii) the appointment of an independent financial adviser (“**IFA**”) to advise the Independent Shareholders on the Proposed Whitewash Resolution.

Accordingly, KGI Fraser Securities Pte. Ltd. (“**KGI Fraser**”), formerly known as AmFraser Securities Pte. Ltd., has been appointed as the IFA to advise the Independent Directors on whether (i) the terms of the Proposed Acquisition, being the subject of the Proposed Whitewash Resolution, are fair and reasonable, and (ii) whether the Proposed Whitewash Resolution is prejudicial to the interests of the Independent Shareholders. This letter (“**IFA Letter**”) is addressed to the Independent Directors, and sets out, *inter alia*, our evaluation of the terms of the Proposed Acquisition, our advice on the Proposed Whitewash Resolution and our recommendations to the Independent Directors. This IFA Letter forms part of the Circular issued by the Company in connection with the Proposed Acquisition.

2. TERMS OF REFERENCE

KGI Fraser has been appointed as IFA to advise the Independent Directors on whether (i) the terms of the Proposed Acquisition, being the subject of the Proposed Whitewash Resolution, are fair and reasonable, and (ii) whether the Proposed Whitewash Resolution is prejudicial to the interests of the Independent Shareholders.

We are not involved and were not involved or responsible, in any respect, in the negotiations in relation to the Proposed Acquisition and the Proposed Allotment, nor were we involved in the deliberations leading up to the decision on the part of the Directors to propose the Proposed Acquisition and the Proposed Allotment or to obtain the approval of the Independent Shareholders for the Proposed Acquisition and the Proposed Allotment and/or Proposed Whitewash Resolution. Accordingly, we do not, by this IFA Letter, warrant the merits of the Proposed Acquisition and the Proposed Allotment and/or Proposed Whitewash Resolution other than to express an opinion on whether (i) the terms of the Proposed Acquisition, being the subject of the Proposed Whitewash Resolution, are fair and reasonable, and (ii) whether the Proposed Whitewash Resolution is prejudicial to the interests of the Independent Shareholders.

Our terms of reference do not require us to evaluate or comment on the rationale, legal, strategic, commercial and financial merits and/or risks of the Proposed Acquisition and the Proposed Allotment and/or Proposed Whitewash Resolution or to compare its relative merits *vis-a-vis* alternative transactions currently or in the future, and we have not made such evaluations or comment. Such evaluations or comments, if any, shall remain the sole responsibility of Directors and the management (the “**Management**”) of the Group although we may draw upon their views or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving our opinion as set out in this IFA Letter.

In the course of our evaluation, we have held discussions with the Directors and the Management, and/or their professional advisers, and have examined and relied on publicly available information collated by us as well as information provided and representations made to us, both written and verbal, by the Directors, the Management and the professional advisers of the Company, including information contained in the Circular. We have not independently verified such information or representations, whether written or verbal, and accordingly cannot and do not make any warranty or representation, express or implied, in respect of, and do not accept any responsibility for the accuracy, completeness or adequacy of, such information or representations.

The Directors (including those who may have delegated detailed supervision of the Circular) have confirmed that, having made all reasonable inquiries and to the best of their respective knowledge, belief, information and representations as provided by the Directors and the

Management are accurate and have confirmed to us that, upon making all reasonable enquiries and to their best knowledge and beliefs, all material information available to them in connection with the Proposed Acquisition, the Proposed Allotment, the Proposed Whitewash Resolution, the Company, the Group and the Target have been disclosed to us, that such information is true, complete and accurate in all material respects and that there is no other information or fact, the omission of which would cause any information disclosed to us or the facts of or in relation to the Proposed Acquisition, the Proposed Allotment, the Proposed Whitewash Resolution, the Company, the Group and the Target stated in the Circular to be inaccurate, incomplete or misleading in any material respect. The Directors jointly and severally accept the responsibility for such information described herein.

We have not independently verified and have assumed that all statements of fact, belief, opinion and intention made by the Directors in the Circular have been reasonably made after due and careful enquiry. Whilst care has been exercised in reviewing the information on which we have relied on, we have not independently verified the information. We nonetheless have made reasonable enquiries and exercised our judgement on the reasonable use of such information and have found no reason to doubt the accuracy or reliability of such information.

Save as disclosed, we would like to highlight that all information relating to the Proposed Acquisition, the Proposed Allotment, the Proposed Whitewash Resolution, the Company, the Group and the Target that we have relied upon in arriving at our recommendation or opinion has been obtained from publicly available information and/or from the Directors and the Management. We have not independently assessed and do not warrant or accept any responsibility as to whether the aforesaid information adequately represents a true or fair position of the financial, operational and business affairs of the Company and/or the Group or the Target at any time or as at the Latest Practicable Date referred to in the Circular.

We have not conducted a comprehensive independent review of the business, operations or financial condition of the Target involved in the Proposed Acquisition, the Company and/or the Group, or to express, and we do not express, any view on the future growth prospects, value or earnings potential of the Company and/or the Group after the Proposed Acquisition. Such review or comment, if any, remains the responsibility of the Directors and the Management, although we may draw upon their views or make such comments in respect thereof (to the extent required by the Listing Manual and/or deemed necessary or appropriate by us) in arriving at our opinion as set out in this IFA Letter. We have not been provided with, nor do we have access to, any business plan or financial projections of the future performance of the Group or the Target and we did not conduct any discussions with the Directors and the Management of the Company or the Target on any such business plan or financial projections of the Group or the Target. We have also not evaluated the strategic or commercial merits or risks of the Proposed Acquisition or the future growth prospects or earnings potential of the Group after the completion of the Proposed Acquisition. Accordingly, we do not express any view as to the prices at which the Shares may trade upon completion of the Proposed Acquisition or on the future financial performance of the Group after the completion of the Proposed Acquisition.

We have not made an independent evaluation or appraisal of the assets and liabilities of the Target, the Company and/or the Group (including, without limitation, property, plant and equipment, inventories, receivables and payables). However, we have been furnished with a valuation report dated 15 May 2015 issued by Ernst & Young Solutions LLP ("**Valuer**") on the fair market value of the entire issued share capital of the Target ("**Independent Valuation Report**") as at 31 December 2014. A summary of the information contained in the Independent Valuation Report ("**Independent Valuation Summary Letter**") is set out in Appendix B to the Circular. We are not experts and do not hold ourselves to be experts in the valuation of the Target as set out in the Independent Valuation Report and we have relied

upon the Independent Valuation Report prepared by the Valuer appointed by the Company. The Independent Valuation Report and the Independent Valuation Summary Letter are part of the documents available for inspection as set out in Section 14 of the Circular.

Our view as set out in this IFA Letter is based upon market, economic, industry, monetary and other conditions (if applicable) prevailing as of the Latest Practicable Date and information and representations provided to us as of the Latest Practicable Date. In arriving at our view, with the consent of the Directors and/or the Company, we have taken into account certain other factors and have made certain assumptions as set out in the IFA Letter. Such conditions may change significantly over a relatively short period of time. We assume no responsibility to update, revise or reaffirm our opinion in light of any subsequent development after the Latest Practicable Date that may affect our opinion contained herein. Shareholders should further take note of any announcements relevant to Proposed Acquisition, the Proposed Allotment and/or the Proposed Whitewash Resolution which may be released by the Company after the Latest Practicable Date.

In rendering our opinion, we have not considered the specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints of any Shareholder or any specific group of Shareholders. As different Shareholders would have different investment profiles and objectives, we recommend that any individual Shareholder or group of Shareholders who may require specific advice in relation to his investment portfolio(s) or objective(s) should consult his or their stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

The Company has been separately advised by its own professional advisers in the preparation of the Circular (other than this IFA Letter). We have had no role or involvement and have not and will not provide any advice (financial or otherwise) in the preparation, review and verification of the Circular (other than this IFA Letter). Accordingly, we take no responsibility for and express no views, expressed or implied, on the contents of the Circular (except for this IFA Letter).

Whilst a copy of this IFA Letter may be reproduced in the Circular, neither the Company, the Directors nor any persons may reproduce, disseminate or quote this IFA Letter (or any part thereof) for any purposes other than for the purposes of the Shareholders' resolution in relation to the Proposed Acquisition and the Proposed Whitewash Resolution at any time and in any manner without the prior written consent of KGI Fraser in each specific case.

We have prepared this IFA Letter for the use by the Independent Directors in connection with their deliberation of the terms of the Proposed Acquisition and the Proposed Whitewash Resolution. The recommendations made by the Independent Directors to the Independent Shareholders remain the sole responsibility of the Independent Directors.

Our opinion in relation to the Proposed Acquisition and the Proposed Whitewash Resolution should be considered in the context of the entirety of this IFA Letter and the Circular.

3. INFORMATION RELATING TO THE PROPOSED ACQUISITION AND THE PROPOSED ALLOTMENT

3.1 Information on the Target

Based on information provided to the Company by the Vendors: the Target is a water treatment and management specialist 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.

The Target has 22 years of track record of supplying water and waste treatment systems and has carried out over 600 projects to-date. As at 31 December 2015, the Target has 16 ongoing projects in the PRC covering 14 provinces in the PRC, including the construction of a seawater desalination system for a 2*1000MW ultra-supercritical coal-fired power generation plant for China Resources Power Holdings Co., Ltd (Haifeng branch). The total contractual value of the PRC projects that are currently under construction amounts to approximately RMB491.93 million as at 30 September 2015. 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.

3.2 Information on the Vendors, Wah Lee and Jilead

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 are set out below:

Vendor	Existing percentage equity interest in Target	Percentage of equity interest in Target proposed to be transferred to Company
WHLK	55.0%	34.2%
HKMI	30.0%	18.0%
ZZD	15.0%	7.8%
Total	100.0%	60.0%

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. As at the date of the Announcement, Mr Huang Weidong (黄卫东) and Mr Zeng Wei (曾伟), both PRC nationals, own approximately 50%% of HKMI's

issued share capital. As at the date of the Circular, Jilead and Wah Lee own approximately 20% and 80% of HKMI's issued share capital respectively. The executive director of HKMI is Mr Zhang Youwen.

Wah Lee

Wah Lee is a company incorporated in Taiwan, and is primarily engaged in development and provision of industrial materials. It is listed on the Taiwan Stock Exchange Corporation with diversified shareholders, and its largest shareholder is Mr Chang Jui Chin (张瑞钦), with approximately 6.44% shareholding. Mr Chang is also the Chairman and CEO of Wah Lee.

Jilead

Jilead is a company incorporated in Taiwan, The major shareholders of Jilead are Gshine Welltech Co., Ltd. (40%), Golden Touch Industrial Corp. (30%) and Great Pride Offshore Inc. (10%), with the remaining shareholding held by five Taiwanese individuals.

ZZD

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

The Vendors, Wah Lee and Jilead 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. The Proposed Acquisition is therefore not an interested person transaction for the purposes of Chapter 9 of the Listing Manual.

3.3 Consideration

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

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 Section 2.1 of the Circular to Shareholders; and (e) current prevailing industry and market conditions, and also with reference to the valuation of the Target by the Valuer.

Pursuant to the SPA, 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 Pre-Consolidation Shares as determined in accordance with the following formula:

$$CS = C \div I$$

where:

CS (at the time of signing of the SPA) is the number of Pre-Consolidation 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 Section 2.4 of this Letter to Shareholders above); and

I is the issue price for each Pre-Consolidation Consideration Share equivalent to S\$0.0285, accordingly, the Pre-Consolidation Consideration Shares to be issued and allotted are as follows:–

Vendors	Pre-Consolidation Consideration Shares	After Share Consolidation
WHLK	217,742,359	10,887,118
HKMI	114,746,725	5,737,336
ZZD	50,000,000	2,500,000
Total	382,489,084	19,124,454

Based on the volume weighted average price of the Pre-Consolidation Consideration 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 (as set out in the SPA) is the same as the VWAP.

In view of the completion of the Share Consolidation, the Company and the Vendors have reached further agreement that the number of Consideration Shares to be allotted and issued to the Vendor Parties shall be revised to 19,124,454 Shares, being 10,887,118 for WHLK, 5,737,336 for HKMI and 2,500,000 for ZZD, at the Issue Price of S\$0.57 for each Consideration Share. On 25 November 2015, HKMI nominated its shareholders, Wah Lee and Jilead, to be allotted and issued 4,589,869 and 1,147,467 Shares respectively.

The Consideration Shares represent approximately 36.55% of the enlarged share capital of the Company, comprising 52,326,632 Shares, after the Share Consolidation and the allotment and issuance of the 19,124,454 Consideration Shares. There will be no 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 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.

Further details of the Proposed Acquisition, the Target and related matters are set out in Section 2 of the Circular.

4. THE PROPOSED WHITEWASH RESOLUTION

4.1 General offer requirement under the Code

Pursuant to Rule 14.1 of the Code, where (a) any person acquires (whether by a series of transactions over a period of time or not) Shares which (taken together with Shares held or acquired by persons acting in concert with him) carry 30% or more of the voting rights of the Company; or (b) any person who, together with persons acting in concert with him, holds not less than 30% but not more than 50% of the voting rights of the Company, or any person acting in concert with him, acquires in any six (6) months additional Shares carrying more than 1% of the voting rights of the Company, such person and his concert parties will be required to make a mandatory general offer for all the Shares not held by them.

As at the Latest Practicable Date, the Concert Parties Group does not hold any Shares or instruments convertible into, rights to subscribe for or options in respect of any Shares in the Company.

Upon completion of the allotment and issue of the Consideration Shares pursuant to the Proposed Acquisition, the Vendor Parties will hold 19,124,454 Shares, representing approximately 36.55% of the Enlarged Share Capital. In such event, the Vendors will be required under the Code to make a mandatory general offer for the Shares not already held by them pursuant to Rule 14.1 of the Code unless such obligation is waived by the SIC and the Proposed Whitewash Resolution is approved by the Independent Shareholders at the EGM.

Completion of the Proposed Acquisition shall be conditional upon, *inter alia*:

- (i) the grant by the SIC of the SIC Waiver; and
- (ii) the approval of the majority of the Independent Shareholders being obtained at the EGM for the Proposed Whitewash Resolution.

4.2 SIC Waiver

The SIC had, on 24 November 2015, waived the requirement for the Vendors to make a general offer for the Company under Rule 14.1 of the Code in the event the Vendors and the parties acting in concert with the Vendors (collectively, the “**Concert Parties Group**”) increase their shareholdings in the Company to 36.55% based on the Enlarged Share Capital as a result of the Vendors acquiring the Consideration Shares under the Proposed Acquisition, subject to the following conditions (“**SIC Conditions**”):

- (a) a majority of holders of voting rights of the Company approve at a general meeting, before the issue of the Consideration Shares, the Proposed Whitewash Resolution by way of a poll to waive their rights to receive a general offer from the Vendors;
- (b) the Proposed Whitewash Resolution is separate from other resolutions;
- (c) the Vendors and their Concert Parties Group, as well as parties not independent of them abstain from voting on the Proposed Whitewash Resolution;
- (d) the Vendors and their Concert Parties Group did not acquire and are not to acquire any Shares or instruments convertible into and options in respect of Shares (other than subscriptions for, rights to subscribe for, instruments convertible into or options in respect of new Shares which have been disclosed in this Circular):
 - (i) during the period between the Announcement and the date Shareholders’ approval is obtained for the Proposed Whitewash Resolution; and
 - (ii) in the six (6) months prior to the Announcement but subsequent to negotiations, discussions or reaching of understandings or agreements with the directors of the Company in relation to such issue;
- (e) the Company appoints an independent financial adviser to advise its Independent Shareholders on the Proposed Whitewash Resolution;

- (f) the Company sets out clearly in the Circular:
 - (i) details of the Proposed Acquisition;
 - (ii) the dilution effect to existing holders of voting rights of the Company upon the Proposed Acquisition of the Consideration Shares by the Vendors;
 - (iii) the number and percentage of voting rights in the Company as well as the number of instruments convertible into, rights to subscribe for and options in respect of Shares held by the Vendors and their Concert Parties Group as at the Latest Practicable Date;
 - (iv) the number and percentage of voting rights to be issued to the Vendor as a result of the Proposed Acquisition; and
 - (v) specific and prominent reference to the fact that shareholders, by voting for the Proposed Whitewash Resolution, are waiving their rights to a general offer from the Vendors at the highest price paid by the Vendors and their Concert Parties Group for the Shares in the past six (6) months preceding the commencement of the offer;
- (g) the Circular states that the waiver granted by SIC to the Vendors from the requirement to make a general offer under Rule 14 is subject to the conditions stated in (a) to (f) above;
- (h) the Company obtains SIC's approval in advance for those parts of the Circular that refer to the Proposed Whitewash Resolution; and
- (i) to rely on the Proposed Whitewash Resolution, the Proposed Acquisition of the Consideration Shares by the Vendors must be completed within three (3) months of the approval of the Proposed Whitewash Resolution.

4.3 The Proposed Whitewash Resolution

Independent Shareholders are requested to vote on a poll on the Proposed Whitewash Resolution set out as an ordinary resolution in the Notice of EGM.

Shareholders should note that:

- (a) approval of the Proposed Whitewash Resolution is a condition precedent to Completion. If Independent Shareholders do not vote in favour of the Proposed Whitewash Resolution, the Proposed Acquisition will not take place;
- (b) by voting in favour of the Proposed Whitewash Resolution, Shareholders are waiving their rights to a general offer from the Concert Parties Group at the highest price paid by the Concert Parties Group for the Shares in the past six (6) months preceding the commencement of the offer; and
- (c) by voting for the Proposed Whitewash Resolution, the Shareholders could be foregoing the opportunity to receive a general offer from another person who may be discouraged from making a general offer in view of the potential dilution effect of the issue of the Consideration Shares.

4.4 Potential Dilution

As a result of the Proposed Acquisition, the collective shareholding interests of the Independent Shareholders in the Company will be diluted. Such dilution effects are illustrated under Section 5 of the Circular which sets out *inter alia* the changes in the shareholding structure of the Company after the Proposed Acquisition.

5. EVALUATION OF THE PROPOSED ACQUISITION AND PROPOSED WHITEWASH RESOLUTION

In our evaluation of the Proposed Acquisition and Proposed Whitewash Resolution, we have given due consideration to, *inter alia*, the following key factors:

- 5.1 rationale for the Proposed Acquisition;
- 5.2 analysis of selected financial information of the Target;
- 5.3 valuation of the Target by the Valuer;
- 5.4 assessment of the Consideration for the Proposed Acquisition against Comparable Companies;
- 5.5 assessment of the Consideration for the Proposed Acquisition against Comparable Transactions;
- 5.6 assessment of the Issue Price;
- 5.7 financial effects of the Proposed Acquisition and the Proposed Allotment on the Group;
- 5.8 dilution impact of the Proposed Transactions; and
- 5.9 other relevant considerations.

5.1 Rationale for the Proposed Acquisition

It is not within our terms of reference to comment or express an opinion on the merits of the Proposed Acquisition or the future prospects of the Group after the Proposed Acquisition. Nevertheless, we have reviewed the rationale for the Proposed Acquisition. The full text of the rationale for the Proposed Acquisition is set out in Section 2.1 of the Circular, and is reproduced in italics below for your reference:

“2.1 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 develop competitiveness 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. The Target is qualified as a high-tech enterprise in the PRC and it holds various permits and licenses required to bid for projects in the PRC. By relying on the Target’s permits, licenses and its operational track record and capabilities, the Company will be able to develop its presence in the PRC market more effectively.

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's strengths lie in its cost efficiency, technology and industry reputation in the PRC built through its successful track record in completing projects in the PRC. 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. It has core technologies capable of achieving zero discharge of wastewater, sea water desalinization and purification of industrial water; it has also accumulated vast experience in carrying out engineering projects relating to water treatment in China."

We note that the Target is a water treatment and management specialist in the PRC with permits, licenses required to bid for projects in the PRC and operational track record and capabilities. The Company is expected to leverage and benefit from the potential operational synergies and the Proposed Acquisition would allow the Company to gain immediate access in the PRC market more effectively. In addition, both companies will be able to benefit from the exchange of knowledge and technology, thereby enhancing their competitive advantage in their respective target markets.

5.2 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 and financial period ended 30 September 2015, extracted from the audited consolidated financial statements for FY2012, FY2013 and FY2014 and unaudited management accounts for the nine-month period ended 30 September 2015 of Target provided by the Company. The financial statements are presented in RMB.

	Audited	Audited	Audited	Unaudited
RMB' million	FY2012	FY2013	FY2014	9 months ended 30 September 2015
Revenue	43.61	42.92	46.22	53.77
Gross profit	10.27	9.07	19.05	24.65
Gross profit margin	23.5%	21.1%	41.2%	45.8%
Profit/(loss) before income tax	0.94	(3.52)	7.46	10.99
Net income	0.94	(3.52)	7.03	9.34
Net profit margin	2.2%	—	15.2%	17.4%

Source: Company

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. The Target has completed a total of 33 projects since 1 January 2012.

The notable projects the Target has completed include (a) desalination EP main contractor for Hongyanhe nuclear power plant, Liaoning Province, China, with a capacity of 16,000 tons per day; (b) desalination EPC main contractor for Haifeng power plant with a capacity of 22,000 tons per day; (c) EPC main contractor for Wuhan Hanxi urban wastewater treatment plant with a capacity of 400,000 tons per day in phase 1; (d) EPC main contractors for urban water treatment for Huangpi Xinwu river water plant and Hubei Tianmen water plant.

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 RMB43.61 million, RMB42.92 million and RMB46.22 million for FY2012, FY2013 and FY2014 respectively. The cost of sales pertain 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.

The Target registered gross profit margins of 23.5%, 21.1% and 41.2% for FY2012, FY2013 and FY2014 respectively. The Target's gross profit margin improved significantly in FY2014, which was to a large part attributable to various actions that the management took in 2013/14 to (i) enhance value-adding services through technology innovation to achieve premium pricing, and (ii) improve its internal controls/management system so as to reduce cost and improve efficiency. For example, it streamlined its work force and reduced its permanent employees from 120 members to 80 in 2014; it adopted a stricter and more comprehensive performance review system where employees are held personally responsible for cost control and project management; it also reviewed supplier network and further strengthened cooperation with first-tier suppliers to reduce procurement costs. The Target's gross profit margin for the 9-month period ended 30 September 2015 was 45.8%, representing further improvement as compared to FY2014.

The Target recorded volatile historical net profitability margins. The Target recorded net profit margins of 2.2%, 15.2% and 17.4% for FY2012, FY2014 and the nine months period ended 30 September 2015 respectively. Such fluctuations in historical net profit margin were primarily caused by changes in gross profit margins. The Target suffered from a loss in FY2013, which was due mainly to a provision for impairment of approximately RMB3.5 million made against its trade receivable balance in FY2013. As part of the Target's effort to enhance its internal management and control in FY2013 and FY2014, the Target reviewed each of its debtor's status and made impairment provisions where it expected payment collection may be problematic.

Based on the audited profit after tax of approximately RMB7.03 million achieved for FY2014, the P/E ratio of Target as implied by the Consideration is approximately 11.7 times.

For the nine months period ended 30 September 2015, the Target commenced 9 new projects with a total contract value of RMB146.89 million. It is also in the bidding process for 5 new projects with total contract value of approximately RMB200.0 million. The gross profit margin improved slightly from 41.2% in FY2014 to 45.8% for nine months period ended 30 September 2015.

Review of financial position of the Target

Based on the latest available audited financial statements of the Target for FY2014 and unaudited management accounts as at 30 September 2015, the summary of the balance sheet of the Target is set out below:

RMB' million	Audited	Unaudited
	As at 31 December 2014	As at 30 September 2015
Non-current assets	0.36	9.20
Current assets	60.95	83.19
Total assets	61.31	92.39
Non-current liabilities	0.20	0.21
Current liabilities	48.38	40.08
Total liabilities	48.58	40.29
Net assets	12.73	52.10

Source: Company

Based on the management representation, as at 31 December 2014, the Target had total assets of RMB61.31 million comprising mainly current assets. Total current assets of RMB60.95 million comprised mainly notes and accounts receivables of RMB25.94 million (42.6%), inventories of RMB22.43 million (36.8%), other receivables of RMB6.53 million (10.7%), cash and cash equivalents of RMB3.30 million (5.4%) and prepayments of RMB2.75 million (4.5%). 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.

Non-current assets mainly comprised property, plant and equipment of RMB0.18 million and intangibles assets of RMB0.18 million. Property, plant and equipment mainly comprised office equipment and computer equipment as well as logistics equipment. Intangibles assets relate to software licenses that were acquired previously.

As at 31 December 2014, the Target had total liabilities of RMB48.58 million comprising mainly current liabilities of RMB48.38 million (99.6%) and non-current liabilities of RMB0.20 million (0.4%). Total current liabilities of RMB48.38 million comprised mainly advances from customers of RMB28.32 million (58.5%), accounts payables of RMB12.29 million (25.4%), employee benefits payable of RMB2.96 million (6.1%) and taxes payable of RMB2.97 million (6.1%) and other payables of RMB1.84 million (3.8%). Other payables mainly pertain to tender deposits paid by sub-contractors to the Target.

Total non-current liabilities mainly comprised contingent liabilities of RMB0.20 million set aside for unforeseeable expenses post-engagement closing. The Target had estimated RMB20,000 for each project closed in FY2014.

As at 31 December 2014, the audited NTA of the Target was approximately RMB12.56 million (being approximately S\$2.76 million based on the Illustrative Exchange Rate). On this basis, the NTA of the Target represented by the 60% Equity Interest is RMB7.53 million (being approximately S\$1.66 million based on the Illustrative Exchange Rate). We note that the Consideration of S\$10,900,939 is at a premium of approximately 557.8% to the audited NTA of the Target as at 31 December 2014 and the P/NTA ratio of Target as implied by the Consideration is approximately 6.6 times.

As at 30 September 2015, the Target had total assets of RMB92.39 million comprising mainly current assets. Total current assets of RMB83.19 million comprised mainly receivables of RMB34.14 million (41.0%), inventories of RMB24.43 million (29.4%), other receivables of RMB11.32 million (13.6%), cash and cash equivalents of RMB8.07 million (9.7%) and prepayments of RMB5.23 million (6.3%). Non-current assets mainly comprised property, plant and equipment of RMB0.76 million and intangibles assets of RMB8.44 million. Intangibles 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. 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 RMB40.29 million comprising mainly current liabilities of RMB40.08 million (99.5%) and non-current liabilities of RMB0.21 million (0.5%). Total current liabilities of RMB40.08 million comprised mainly accounts payables of RMB18.03 million (45.0%), advances from customers of RMB9.86 million (24.6%), other payables of RMB5.75 million (14.4%), taxes payable of RMB3.52 million (8.8%) and employee benefits payable of RMB2.91 million (7.3%). Total non-current liabilities mainly comprised contingent liabilities of RMB0.21 million.

Based on the unaudited financial results for the nine-month period ended 30 September 2015, the unaudited NTA of the Target was RMB43.67 million (being approximately S\$9.61 million based on the Illustrative Exchange Rate) as at 30 September 2015. On this basis, the NTA of the Target represented by the 60% Equity Interest is RMB26.20 million (being approximately S\$5.76 million based on the Illustrative Exchange Rate).

We note that the Consideration of S\$10,900,939 is at a premium of 89.1% to the unaudited NTA of the Target as at 30 September 2015 and P/NTA ratio of Target as implied by the Consideration is approximately 1.9 times.

5.3 Valuation of the Target by the Valuer

The Company has commissioned an independent Valuer to undertake a valuation of the fair market value of 100% of the equity interest in the Target as at 31 December 2014. Fair market value is generally defined as the amount at which an asset could be exchanged between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, acting in an arm's length transaction, in an open and unrestricted market.

We note that 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 2017, with a sustainable earnings period assumed subsequently to 31 December 2017 before the attribution of a terminal value.

We note that the valuation is based on various assumptions with respect to the Target, including their respective present and future financial conditions, business strategies and the environment in which they will operate in the future. These assumptions are based on the information that the Valuer have been provided with and their discussions with or on behalf of management of the Target, and reflect current expectations and views regarding future events, and therefore necessarily involve known and unknown risks and uncertainties.

We set out in italics below the key assumptions extracted from the Independent Valuation Report:

1. *Wuhan Kaidi is assumed to operate on a going concern basis and the current use of its assets is at their highest and best use;*
2. *There are no adverse changes to the economic and market conditions impacting demand across the industry landscape, as well as changes in regulatory, fiscal and other government policies in China, where the Target operates;*
3. *There will be no significant change in the operations and business strategy of the Target subsequent to the Valuation Date;*
4. *All related party transactions are transacted at arm's length;*
5. *The financial forecast (specifically, the forecast profit & loss statement) and its underlying assumptions reflect Wuhan Kaidi Management's future business plans and is assumed not to contravene existing regulatory and tax requirements;*
6. *The level of capital expenditure and net working capital projected in the financial forecast is assumed to be sufficient to meet the forecast growth;*
7. *The unaudited financial statements of Wuhan Kaidi for the period ended 31 December 2014 fairly reflects Wuhan Kaidi's financial position as at the Valuation Date;*
8. *The order book provided by Wuhan Kaidi's Management is a fair reflection of Wuhan Kaidi's existing and future projects which will be executed in FY15 to FY17;*
9. *Wuhan Kaidi will be able to obtain the requisite debt or equity funding from financial institutions, shareholders, or potential investors on a timely and commercially reasonable terms basis to meet its cash flow requirement;*
10. *Wuhan Kaidi is assumed to be able to renew underlying business qualifications and/or licenses with minimum costs before the expiry of such qualifications/licenses;*
11. *There is no substantial commitment or uncertainty that has arisen subsequent to the Valuation Date, which is material to be considered in the forecast;*
12. *Wuhan Kaidi has proper and good title to the intangible assets, property, plant and equipment without any liens or encumbrances unless otherwise stated; and*
13. *Wuhan Kaidi has no material or significant contingent liabilities or uncertainty, including any litigation pending or threatened, as at the Valuation Date that warrants consideration in the forecast*

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 RMB121.50 million to RMB148.30 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 RMB72.90 million to RMB88.98 million (being approximately S\$16,038,000 to S\$19,575,600 based on the Illustrative Exchange Rate).

The audited NTA of the Target as at 31 December 2014 was RMB12.56 million. Based on the valuation performed by the Valuer, the lower and upper range of the fair market value of the Target is at a premium of 868% and 1081% respectively to the audited NTA of the Target as at 31 December 2014.

We note that the Consideration of S\$10,900,939 is at a discount of 32.0% and 44.3% to the lower and upper range of fair market value of the Target respectively as at 31 December 2014 given by the Valuer. The Directors have confirmed that, as at the Latest Practicable Date, to the best of their knowledge and belief, there is no significant adverse event that changes the financial and operation position of the Target since the date of the valuation.

The Valuer has assessed the reasonableness of the valuation results by cross-checking the fair market value determined under the income approach with the market multiple methodology under the market approach i.e. EV/EBITDA and P/E multiples.

We note that in arriving at the Consideration for the Target, the Company has taken into consideration the valuation provided by the Valuer, as well as the future business potential of the Target, as well as the operational synergies brought along by the Proposed Acquisition.

Please refer to the Independent Valuation Summary Letter annexed in Appendix B to this Circular. Shareholders are advised to read the Independent Valuation Summary Letter carefully.

5.4 Assessment of the Consideration for the Proposed Acquisition against Comparable Companies

Comparison of valuation statistics of selected listed companies whose businesses are broadly comparable to the Target

For the purpose of assessing the Consideration for the Proposed Acquisition, we have compared the various valuation measures of the Target as implied by the Consideration with companies whose businesses are broadly comparable to the Target (“**Comparable Companies**”). As the Target is principally engaged in the provision of comprehensive and integrated engineering solutions for water purification, water supply and wastewater treatment systems, we have considered companies that provides water treatment services in China and publicly listed in their respective countries and profitable for their latest financial year and with market capitalization below S\$11.0 billion as at the Latest Practicable Date. The Comparable Companies are broad proxies to the Group’s business and is intended to serve only as an illustrative guide.

We have had discussions with the Management of the Company about the suitability and reasonableness of the selected Comparable Companies acting as a basis for comparison with the Group. Relevant information has been extracted from Bloomberg L.P., publicly available annual reports and/or public announcements of the selected Comparable Companies. We make no representations or warranties, expressed or implied, as to the

accuracy or completeness of such information. The selected Comparable Companies' accounting policies with respect to the values for which the assets or the revenue and cost are recorded may differ from that of the Group.

We wish to highlight that the Comparable Companies may not be exhaustive and they differ from the Target in terms of, *inter alia*, market capitalisation, size of operations, diversity of business activities, asset base, geographical spread, customer base, brand loyalty, track record, financial performance, future prospects, operating and financial leverage, liquidity, risk profile, quality of earnings and accounting, and other relevant criteria. Therefore, any comparison made herein serves as an illustrative guide for Shareholders.

A brief description of the Comparable Companies is as follows:–

Companies	Key Activities
CEC Environmental Protection Co Ltd	CEC Environmental Protection Co., Ltd. develops, designs, manufactures and markets industrial water treatments. The Company provides industrial water treatment, condensate recovery, wastewater treatment and automation control systems.
Beijing Originwater Technology Co Ltd	Beijing Originwater Technology Co., Ltd. provides sewage treatment and sewage facility development services. The Company's services include sewage treatment plant construction and design, equipment integration solution, and technical support services.
CT Environmental Group Ltd	CT Environmental Group Limited is a wastewater and industrial water supply services company focusing on industrial wastewater. The Company's services cover the chain of wastewater treatment, from design and planning, procurement and construction, to operations and maintenance.
China National Chemical Engineering Co Ltd	China National Chemical Engineering Company Ltd. offers construction services. The Company builds chemical, petrochemical, pharmaceutical and power plants, and coal industry facilities.
Kangda International Environmental Co Ltd	Kangda International Environmental Co., Ltd. invests and operates wastewater treatment facilities in China.
SIIC Environment Holdings Ltd	SIIC Environment Holdings Ltd. conducts operations in wastewater treatment, water purification treatment, and system automation. The Company procures and installs industrial and municipal wastewater treatment systems, and designs and installs water purification treatment systems. SIIC also designs and implements automated control systems for power plants and wastewater treatment plants.

Companies	Key Activities
CITIC Envirotech Ltd	CITIC Envirotech Limited is an investment holding company. The Company, through its subsidiaries, provides environmental consultancy solutions in the area of environmental health and safety as well as designs and implements integrated environmental engineering solutions based on membrane technology.

Source: Bloomberg L.P.

For the purpose of our evaluation and for illustration, we have made comparisons between the Target and the Comparable Companies on a historical basis using the following valuation parameters.

Valuation Measure	Description
Price-to-earnings ratio (" P/E ")	P/E ratio or earnings multiple illustrates the valuation ratio of the current market value of a company's shares relative to its consolidated basic earnings per share as stated in its financial statements. The P/E ratio is affected by, <i>inter alia</i> , the capital structure of a company, its tax position as well as its accounting policies relating to depreciation and intangible assets.
Price-to-NTA ratio (" P/NTA ")	P/NTA ratio illustrates the ratio of the market price of a company's shares relative to its asset backing as measured in terms of its historical consolidated NTA per share as stated in its financial statements. The NTA figure provides an estimate of the value of a company assuming the sale of all its tangible assets, the proceeds which are first used to settle its liabilities and obligations with the balance available for distribution to its shareholders. Comparison of companies using their book NTAs are affected by differences in their respective accounting policies, in particular their depreciation and asset valuation practice.
Enterprise value to EBITDA Ratio (" EV/EBITDA ")	The historical EV/EBITDA ratio illustrates the ratio of the market value of a company's business relative to its historical consolidated pre-tax operating cashflow performance, without regard to its capital structure, and provides an indication of current market valuation relative to operating performance. "EV" is the sum of a company's market capitalisation, preferred equity, minority interests, short-and long-term debts less cash and cash equivalents, and represents the actual cost to acquire the entire company. "EBITDA" refers to historical consolidated earnings before interest, tax, depreciation and amortisation expenses. EBITDA can be used to analyse the profitability between companies as it eliminates the effects of financing and accounting decisions.

The valuation measures of the Comparable Companies is set out below:

Comparable Companies	Listing Location	Last Financial Year End	Market Capitalisation ⁽¹⁾ (S\$' million)	Historical P/E ⁽¹⁾⁽²⁾ (times)	Historical P/NTA ⁽¹⁾⁽³⁾ (times)	Historical EV-EBITDA ⁽¹⁾⁽²⁾ (times)
CEC Environmental Protection Co Ltd	China	Dec 14	928.3	54.1	4.8	43.2
Beijing Originwater Technology Co Ltd	China	Dec 14	10,781.1	40.5	4.4	45.7
CT Environmental Group Ltd	China	Dec 14	2,270.3	7.4	1.5	24.0
China National Chemical Engineering Co Ltd	China	Dec 14	5,801.5	9.1	1.1	4.5
Kangda International Environmental Co Ltd	Hong Kong	Dec 14	501.6	8.3	0.8	9.9
SIIC Environment Holdings Ltd	Singapore	Dec 14	1,342.7	21.2	2.5	34.2
CITIC Envirotech Ltd	Singapore	Mar 15	1,556.3	22.4	4.1	19.5
High				54.1	4.8	45.7
Low				7.4	0.8	4.5
Mean				23.3	2.7	25.9
Median				21.2	2.5	24.0
Target (implied by the Consideration)		Dec 14		11.7⁽⁴⁾	1.9⁽⁵⁾	6.8

Source: Bloomberg L.P., annual reports and/or announcements of the respective Comparable Companies

Notes:–

- (1) Market capitalization, historical P/E, P/NTA and EV/EBITDA of the Comparable Companies were based on their respective closing prices as at the Latest Practicable Date.
- (2) Based on the historical full year consolidated earnings of the respective Comparable Companies.
- (3) The P/NTA ratios of the Comparable Companies were based on their respective NTA values as set out in their latest available published financial statements as at the Latest Practicable Date.
- (4) The historical P/E multiple and the historical EV/EBITDA multiple of the Target as implied by the Consideration were computed based on its earnings and EBITDA for the Target for FY2014.
- (5) The historical P/NTA multiple of the Target as implied by the Consideration was computed based on its NTA as set out in its latest management account as at 30 September 2015.

Based on the above, we note that:–

- (a) The P/E ratio of the Target implied by the Consideration of 11.7 times within the range of the P/E ratios of the Comparable Companies;
- (b) The P/E ratio of the Target implied by the Consideration of 11.7 times is lower than the mean and median of P/E ratios of the Comparable Companies of 23.3 times and 21.2 times respectively;
- (c) The P/NTA ratio of the Target implied by the Consideration of 1.9 times is within the range of P/NTA ratios of the Comparable Companies;
- (d) The P/NTA ratio of the Target implied by the Purchase Consideration of 1.9 times is lower than the mean and median P/NTA ratios of the Comparable Companies of 2.7 times and 2.5 times respectively; and
- (e) The EV/EBITDA ratio of the Target implied by the Consideration of 6.8 times is within the range of EV/EBITDA ratios of the Comparable Companies, and is significantly lower than the mean and median of the EV/EBITDA ratios of the Comparable Companies of 25.9 times and 24.0 times respectively.

5.5 Assessment of the Consideration for the Proposed Acquisition against Comparable Transactions

In assessing the reasonableness of the terms of the Proposed Transactions, the premium over/discount from the last transacted prices prior to the Announcement Date as implied by the Consideration and the effects of the dilution on the voting rights for Independent Shareholders, we have reviewed transactions which involves issuance of shares by companies listed on the SGX-ST, wherein a whitewash resolution was sought from shareholders (the “**Selected Comparable Transactions**”) and similar to the Proposed Whitewash Resolution sought.

We wish to highlight that the list of target companies set out under the Selected Comparable Transactions are not directly comparable with the Company in terms of market capitalisation, size of operations, business activities, accounting policies, financial performance, future prospects and other relevant criteria. Each transaction must be judged on its own commercial and financial merits. The list of Selected Comparable Transactions is by no means exhaustive and information relating to the said companies was compiled from publicly available information. Accordingly any comparison between the Proposed Transactions and the Selected Comparable Transactions serves as an illustrative guide only. Conclusions drawn from the comparisons made may not reflect any perceived market valuation of the Company.

A summary of the relevant financial terms of the Selected Comparable Transactions is set out below.

Company	Date of Announcement	Resultant shareholding of incoming shareholder in the company	Issue/ subscription Price	Premium over/ (Discount to) last transacted price prior to the announcement	Issue/ subscription Price to NTA ⁽¹⁾
			(S\$)	(%)	(times)
Sitra Holdings (International) Limited	04-Nov-11	from 4.94% to 36.89%	0.06	7.14	1.58
GSH Corporation Limited	30-Mar-12	from 14.99% to 57.76%	0.007	(36.50)	0.48
Scintronic Corporation Ltd.	17-Sep-12	from 0% to 53.31%	0.0135	(35.71)	0.56
Metax Engineering Corporation Limited	25-Oct-12	from 0% to 41.00%	0.053	(41.11)	1.92
China New Town Development Company Limited	18-Jan-13	from 0% to 54.32%	0.04	(44.03)	0.35
Carriernet Global Ltd	25-Feb-13	from 33.32% to 53.72%	0.011	(38.89)	4.11
KLW Holdings Limited	15-Nov-13	from 0% to 50.60%	0.02	(20.00)	2.06
Chinavision Media Group Limited ⁽²⁾	11-Mar-14	from 0% to 59.83%	HKD0.5	(21.90)	2.51
Oniontech Limited	21-Feb-14	from 0% to 68.13%	0.03	11.11	0.33 ⁽³⁾
Cacola Furniture International Limited	02-Oct-14	from 0% to 79.43%	n.a. ⁽⁴⁾	(10.00)	1.09
Xpress Holdings Ltd	05-Dec-14	from 0.58% to 57.66%	0.007	(22.22)	21.20
High				11.11	21.20
Low				(44.03)	0.33
Mean				(22.92)	3.29
Median				(22.22)	1.58
Company	11-Aug-15	from 0% to 36.55%	0.57⁽⁵⁾	–	1.51

Source: SGX-ST announcements, circulars and relevant documents of the respective Selected Comparable Transactions.

Notes:–

- (1) The NTA of the respective companies are based on their respective NTA values as set out in their respective circular for their above mentioned transactions.
- (2) The discount to the last transacted price prior to the announcement is based on 25 February 2014.
- (3) Based on revalued NTA.
- (4) Issue price is determined to be at a discount of ten percent to VWAP of the price traded on the day the company received subscription request.
- (5) Based on VWAP on the Announcement date and adjusted for the Share Consolidation.

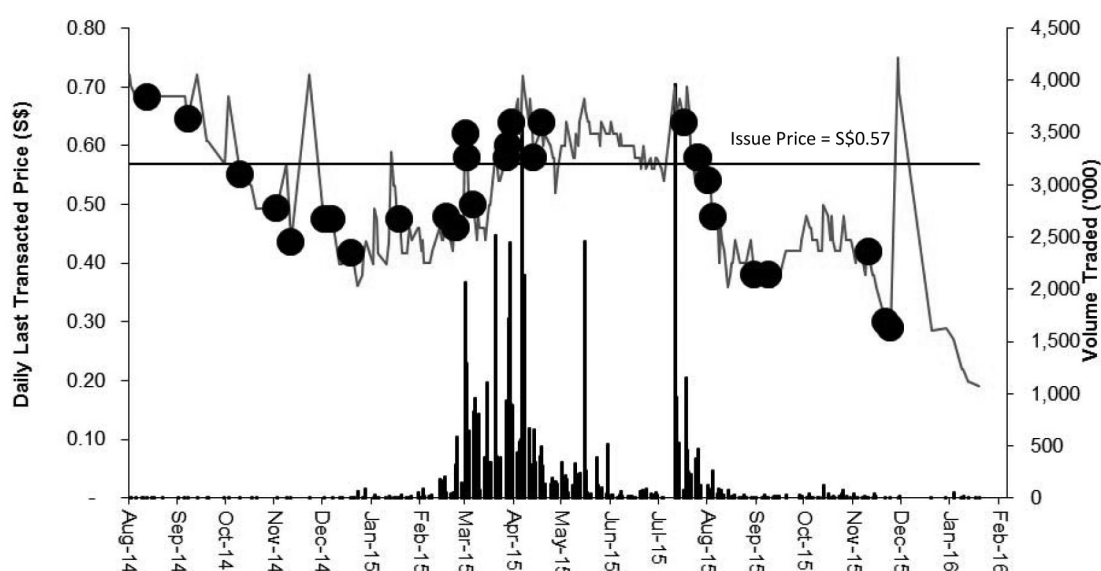
The Issue Price is the same as the VWAP of the Shares (adjusted for the Share Consolidation) on 11 August 2015 (being the full market day on which the SPA was executed). We note that there is no premium or discount of the Issue Price to the VWAP, and is within the range of premium over and discount from the Selected Comparable Transactions and is favourable as compared to the mean and median for the Selected Comparable Transactions of a discount of 22.92% and 22.22% respectively.

We also note that the Issue Price to NTA of 1.51 times is also within the range of 0.33 times to 21.20 times based on the Selected Comparable Transactions, and is lower than the mean and median of 3.29 times and 1.58 times respectively.

5.6 Assessment of the Issue Price

Market quotation and trading liquidity of the Shares

The historical price chart (based on closing prices and the number of Shares traded on a daily basis) for the Shares during the period commencing 12 months prior to the date of the SPA and ending on the Latest Practicable Date is set out below:



Source: Bloomberg L.P.

A summary of the salient announcements and key events relating to the Company during the aforesaid period is set out below:

	Date	Event
1	22 Aug 2014	The Company made a clarification announcement on the unaudited financial results for the half year ended 30 June 2014
2	19 Sep 2014	The Company announced a strategic alliance with China Construction First Bureau Group Interior Fitout Engineering Co, Ltd
3	20 Oct 2014	The Company announced the proposed adoption of the Darco performance share plan and the proposed change of auditors
4	12 Nov 2014	The Company announced the receipt of approval in-principle for the proposed renounceable non-underwritten rights issue of up to 387,358,736 new ordinary shares in the capital of the Company at an issue price of S\$0.021 each rights share on the basis of seven rights share for every five existing ordinary shares in the capital of the Company held by entitled shareholders of the Company as at book closure date (the "Proposed Rights Issue")
5	27 Nov 2014	The Company announced the reclassification of the Group's cash and cash equivalents following a review of the cash position within the Group
6	12 Dec 2014	The Company made a clarification announcement in relation to the reclassification of the Group's cash and cash equivalents
7	19 and 29 Dec 2014	The Company made a clarification announcement in relation to the redemption of structured deposits
8	28 Jan 2015	The Company announced the notice of book closure date for the Proposed Rights Issue
9	27 Feb 2015	The Company announced its unaudited full year financial statement for the year ended 31 December 2014
10	4 Mar 2015	The Company announced the results of the Rights Issue
11	5 Mar 2015	The Company announced the allotment and issuance and listing and quotation of the rights shares and changes in the interest of directors, substantial shareholders
12	11 Mar 2015	The Company responded to the query from SGX in relation to trading activity
13	12 Mar 2015	SGX issued a trade with caution announcement
14	16 Mar 2015	The Company announced changes in interests of substantial shareholders
15	6 Apr 2015	The Company announced discrepancies between unaudited and audited accounts
16	7 Apr 2015	The Company announced the auditor's comments on the annual report for financial year ended 12 December 2014

	Date	Event
17	9 Apr 2015	The Company issued its annual reports for financial year ended 12 December 2014 and notice of annual general meeting
18	23 Apr 2015	The Company announced the cessation of lead independent director, Ang Kheng Hui, and appointment of new lead independent director, Lester Tay Lee Chye, and changes in the composition of the board and board committees
19	28 Apr 2015	The Company responded to SGX queries in relation to the annual report for FY14
20	27 Jul 2015	The Company announced the proposed disposal of its entire issued and paid-up capital of wholly owned subsidiary, Darco Engineering (Taiwan) Co., Ltd.
21	4 Aug 2015	The Company announced the resignation of independent director, Tang Kai Meng, and changes in the composition of the board and board committee
22	5 Aug 2015	The Company announced its unaudited half yearly financial statement for the six months ended 30 June 2015
23	11 Aug 2015	The Company announced the proposed acquisition of 60% equity interest in Wuhan Kaidi Water Services Co., Ltd.
24	14 Aug 2015	The Company announced the appointment of independent director, Tay Von Kian, and changes in the composition of the board and board committees
25	9 Sep 2015	The Company announced amongst others, the waiver of the requirement of Rule 1014(2) of the Listing Manual
26	18 Sep 2015	The Company announced proposed consolidation of every twenty existing ordinary shares in the capital of the Company into one ordinary share (the “ Proposed Consolidation ”)
27	20 Nov 2015	The Company announced the notice of books closure date for the Proposed Consolidation and change of name of a subsidiary
28	1 Dec 2015	The Company announced the completion of the Proposed Consolidation
29	3 Dec 2015	The Company announced changes in interests of directors
30	28 Dec 2015	The Company announced the extension of long stop date for the proposed acquisition of 60% equity interest in Wuhan Kaidi Water Services Co., Ltd.
31	15 February 2016	The Company announced the receipt of approval-in-principle from the SGX-ST for the Proposed Acquisition

Source: Announcements relating to the Group on the SGX-ST. Shareholders should refer to the SGX-ST website for full list of announcements relating to the Group.

We have also tabulated below selected statistical information on the share price performance and trading liquidity of the Shares from 11 August 2014, being the 12-month period prior to the Announcement Date, up to the Latest Practicable Date:

	Highest Price	Lowest Price	VWAP	Premium/ (Discount) of Issue Price over/to VWAP ⁽²⁾	Average daily Trading volume ⁽³⁾	Average daily trading volume as a percentage of free float ⁽⁴⁾
	(\$)	(\$)	(\$)	(%)	('000)	(%)
Prior to the Announcement Date						
Last 12 months	0.721	0.361	0.611	(6.7)	301.4	1.5
Last 6 months	0.720	0.400	0.612	(6.9)	419.6	2.0
Last 3 months	0.700	0.540	0.662	(13.9)	274.1	1.3
Last 1 month	0.700	0.540	0.678	(15.9)	543.6	2.6
11 August 2015, being the full market day on which the SPA was executed	0.580	0.520	0.570	—	122.8	0.6
After the Announcement, 11 August 2015						
After the Announcement Date and up to the Latest Practicable Date	0.750	0.190	0.450	26.6	26.6	0.1
Latest Practicable Date ⁽⁵⁾	0.190	0.190	0.190	200.0	1.5	0.0

Source: Bloomberg L.P.

Notes:—

- (1) The share price and trading volume shown are after adjustment of the Share Consolidation that was completed on 1 December 2015.
- (2) The VWAP for the respective periods are calculated based on the daily VWAP turnover divided by the VWAP volume as extracted from Bloomberg L.P.. Off market transactions are excluded from the calculation. The figures are rounded to the nearest three (3) decimal places;
- (3) The average daily traded volume of the Shares is calculated based on the total volume of Shares traded on the SGX-ST during the relevant periods, divided by the number of market days when there were trades.
- (4) Free float refers to the Shares other than those held by the Directors, substantial Shareholders and their associates (as defined in the Listing Manual). For the purpose of computing the average daily trading volume as a percentage of free float, we have used the free float of approximately 20.6 million Shares based on the free float of 62.03% as at 11 January 2016 provided by the Company.
- (5) Based on the share price as at 29 January 2016. There are no trades subsequent to 29 January 2016 up till the Latest Practicable Date.

We note the following with regard to the Share price performance of the Company:—

- (a) the Issue Price represents a discount of approximately 6.7%, 6.9%, 13.9% and 15.9% to the VWAPs of the Shares for the 12-month, 6-month, 3-month and 1-month periods prior to and including the Announcement Date, respectively;
- (b) the Issue Price is the same as the VWAP of the shares on 11 August 2015, being the full market day on which the SPA was executed;

- (c) the Issue Price represents a premium of 26.6% and 200.0% above the VWAP of the Shares for the period after the Announcement Date and up to the Latest Practicable Date and on the Latest Practicable Date, respectively; and
- (d) the trading liquidity has generally remained low for the past 12 months, representing not more than 3.0% of the free float of the Shares.

Shareholders should note that the past trading performance of the Shares should not, in any way, be relied upon as an indication or a promise of its future trading performance. There is no assurance that the price of the Shares will remain at current levels as and when the Proposed Acquisition completes.

NTA of the Group

Based on the unaudited financial statements of the Group for the 6-month financial period ended 30 June 2015, being the latest available unaudited financial information prior to the signing of the SPA, the unaudited NTA attributable to owners of the Company as at 30 June 2015 amounted to S\$12.53 million, or S\$0.3773 per Share based on 33,202,147 Shares (adjusted for the Share Consolidation). Accordingly, the Issue Price represents a premium of 51.1% over the unaudited NTA per Share of S\$0.3773 per Share as at 30 June 2015.

Based on the audited financial statements of the Group for FY2014, being the latest available audited financial information as at the Latest Practicable Date, the audited NTA attributable to owners of the Company as at 31 December 2014 amounted to S\$6.10 million, or S\$0.1838 per Share based on 33,202,147 Shares (adjusted for the Share Consolidation). Accordingly, the Issue Price represents a premium of 210% over the audited NTA per Share of S\$0.1838 per Share as at 31 December 2014.

We understand from the Management that there will be a net gain of approximately S\$2.88 million resulting from the proposed disposal of Darco Engineering (Taiwan) Co., Ltd. which was announced on 27 July 2015, and this will increase the NTA of the Group subsequent to 30 June 2015. The adjusted NTA amounted to S\$15.41 million and the Issue Price will represent a premium of 22.8% to the adjusted NTA. Save for the above, the Directors have confirmed that, to the best of their knowledge and belief, (a) they are not aware of any circumstances which may cause the NTA of the Group as at the Latest Practicable Date to be materially different from that as at 31 December 2014 and 30 June 2015 respectively; and (b) there are no contingent liabilities, bad or doubtful debts or impairment losses as at Latest Practicable Date which are likely to have a material impact on the NTA of the Group as at 31 December 2014 and 30 June 2015 respectively.

5.7 Financial Effects of the Proposed Acquisition and the Proposed Allotment on the Group

The Proposed Acquisition will be fully funded by the allotment and issuance of 19,124,454 Consideration Shares. There will be no 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 financial effects of the Proposed Acquisition on the Company is prepared based on the Group's audited consolidated financial statements for FY2014 and is set out in Section 4 of the Circular. Shareholders are advised to read the information carefully, including the bases and assumptions as set out therein.

We note that the Proposed Acquisition would result in the following proforma financial effects for the Group:

- (i) The NTA per Share of the Group would decrease from 44.10 cents to 23.54 cents, assuming the Proposed Acquisition had been completed on 31 December 2014. This is due mainly to the enlarged issued share capital of the Company due to the issuance of the Consideration Shares, notwithstanding the inclusion of NTA of the Target.
- (ii) The earnings per Share of the Group for FY2014 would increase from 0.44 cents to 3.00 cents, assuming the Proposed Acquisition had been completed on 1 January 2014. This is mainly due to profit contributions from the Target; and
- (iii) The Proposed Acquisition will have an impact on the issued share capital and shareholding structure of the Company as the Consideration shall be entirely satisfied by way of the issuance of the Consideration Shares. The details of changes in shareholding structure of the Company after the Proposed Acquisition are set out in Section 5 of the Circular.

5.8 Dilution Impact of the Proposed Transactions

Shareholders should note that the Consideration will be satisfied entirely by the issuance and allotment of 19,124,454 Consideration Shares to the Vendors Parties. As a result of the Proposed Acquisition, the collective shareholding interests of the Independent Shareholders in the Company will be diluted. Such dilution effects are illustrated under Section 5 of the Circular which sets out *inter alia* the changes in the shareholding structure of the Company after the Proposed Acquisition.

The shareholding interest of the existing Independent Shareholders will be diluted from 100.00% as at the Latest Practicable Date to approximately 63.45% of the Enlarged Share Capital of the Company following the completion of the Proposed Acquisition. The Vendors Parties will collectively own 36.55% of the Enlarged Share Capital of the Company following the completion of the Proposed Acquisition. The Vendors Parties, comprising WHLK, Jilead, Wah Lee and ZZD and their respective shareholdings of the enlarged share capital of the Company following the completion of the Proposed Acquisition are 20.81%, 2.19%, 8.77% and 4.78% respectively.

We note that Mr Thye Kim Meng's shareholdings will be diluted from 21.55% as at the Latest Practicable Date to approximately 13.67% of the Enlarged Share Capital of the Company following the completion of the Proposed Acquisition. Mr Thye Kim Meng who is the Chairman, Managing Director and Chief Executive Director of the Company now has represented to us that he will remain as the key driver of the Group upon completion of the Proposed Acquisition. The Vendors Parties will not have any board representation upon the completion of the Proposed Acquisition for the next financial year.

The Company has represented to us that both HKMI and ZZD are passive investors and are not involved in daily operations of Target. WHLK is a investment holding company which 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. Mr Wang Yaoyu, the director of WHLK, will still run the daily operations of the Target upon completion of the Proposed Acquisition.

However, The Target will become the Group's largest subsidiary upon the completion of the Proposed Acquisition. In order to ensure accountability to the Board and effective formulation and implementation of the Group's policy, the Board shall consider appointment of senior management members from major subsidiaries, including the Target, as an executive director of the Board at an appropriate time.

5.9 Other Relevant Considerations

(a) No assurance of future profitability

Shareholders may wish to note the potential synergies between the Target and the Group as set out in Section 2.1 of the Rationale of the Circular. However there is no assurance that the Proposed Acquisition will yield positive results. In addition, the Group may be exposed to additional risks after the Proposed Acquisition. Shareholders should note that there is also no assurance that the Group (which would include the Target) will be profitable and/or pay dividends after the completion of the Proposed Acquisition. The past performance of the Target should in no way be taken as a guarantee of future results.

(b) Inter-conditionality of the Proposed Acquisition and the Proposed Whitewash Resolution

We note that the Proposed Acquisition is conditional upon, *inter alia*, the approval of the Proposed Whitewash Resolution by the Independent Shareholders. Accordingly, if the Proposed Whitewash Resolution is not passed by the Independent Shareholders, the Proposed Acquisition will not take place.

(c) Implications of the Proposed Whitewash Resolution

By voting in favour of the Proposed Whitewash Resolution, the Independent Shareholders will be waiving their rights to receive the general offer for all the Shares which the Vendors Parties would otherwise be obliged to make at the highest price paid or agreed to be paid by them for the Shares in the past six (6) months preceding the allotment and issue of the Consideration Shares pursuant to the Proposed Acquisition and the Proposed Allotment, in accordance with Rule 14 of the Code and Section 139 of the SFA.

Notwithstanding the above, upon completion of the Proposed Acquisition and the Proposed Allotment, such that the aggregate shareholdings of the Vendors Parties were not less than 30% but not more than 50% of the voting rights in the Company, they would be required under Rule 14 of the Code to make a mandatory general offer for the remaining Shares not owned, controlled or agreed to be acquired by them if they were to acquire more than 1% of the voting rights in the Company in any 6-month period.

6. OPINION

In arriving at our opinion, we have taken into account, reviewed and examined all the factors which we consider to be pertinent and to have significant bearing on our assessment of the Proposed Acquisition and Proposed Whitewash Resolution, including the following factors summarized below. Independent Shareholders should be advised to read the following factors in conjunction with, and in the context of, the full text of this IFA Letter:–

- (a) The rationale for the Proposed Acquisition, details of which are set out in Section 5.1 of this IFA Letter;

- (b) The financial performance and financial position of the Target from FY2012 to FY2014 and nine-month period ended 30 September 2015, details of which are set out in Section 5.2 of this IFA Letter;
- (c) The valuation of the Target by the Valuer, details of which are set out in Section 5.3 of this IFA Letter. We note that the Consideration of S\$10,900,939 is at a discount of 32.0% and 44.3% to the lower and upper range of fair market value of the Target as at 31 December 2014 of S\$26.73 million and S\$32.63 million respectively given by the Valuer;
- (d) In comparison to the Comparable Companies:–
- The P/E ratio of the Target implied by the Consideration of 11.7 times is within the range of the P/E ratios of the Comparable Companies;
 - The P/E ratio of the Target implied by the Consideration of 11.7 times is lower than the mean and median of P/E ratios of the Comparable Companies of 23.3 times and 21.2 times respectively;
 - The P/NTA ratio of the Target implied by the Consideration of 1.9 times is within the range of P/NTA ratios of the Comparable Companies;
 - The P/NTA ratio of the Target implied by the Purchase Consideration of 1.9 times is lower than the mean and median P/NTA ratios of the Comparable Companies of 2.7 times and 2.5 times respectively; and
 - The EV/EBITDA ratio of the Target implied by the Consideration of 6.8 times is within the range of EV/EBITDA ratios of the Comparable Companies, and is significantly lower than the mean and median of the EV/EBITDA ratios of the Comparable Companies of 25.9 times and 24.0 times respectively.
- (e) In comparison to the Comparable Transactions:–
- The Issue Price is within the range of premium over and discount from the Selected Comparable Transactions and is favorable as compared to the mean and median for the Selected Comparable Transactions of a discount of 22.92% and 22.22% respectively; and
 - The Issue Price to NTA of 1.51 times is also within the range of 0.33 times to 21.20 times based on the Selected Comparable Transactions, and is lower than the mean and median of 3.29 times and 1.58 times respectively.
- (f) In regard to the Share price performance of the Company:–
- the Issue Price represents a discount of approximately 6.7%, 6.9%, 13.9% and 15.9% to the VWAPs of the Shares for the 12-month, 6-month, 3-month and 1-month periods prior to and including the Announcement Date, respectively;
 - the Issue Price is the same as the VWAP of the shares on 11 August 2015, being the full market day on which the SPA was executed;
 - the Issue Price represents a premium of 26.6% and 200.0% above the VWAP of the Shares for the period after the Announcement Date and up to the Latest Practicable Date and on the Latest Practicable Date respectively; and

- the trading liquidity has generally remained low for the past 12 months, representing not more than 3.0% of the free float of the Shares;
- (g) The Issue Price of S\$0.57 represents a premium of 51.1% and 210% over the unaudited NTA per Share of S\$0.3773 as at 30 June 2015 and audited NTA per Share of S\$0.1838 as at 31 December 2014;
- (h) The financial effects of the Proposed Acquisition and Proposed Allotment on the Group, details of which are set out in Section 5.7 of this IFA Letter. The earnings per Share of the Group for FY2014 would increase from 0.44 cents to 3.00 cents due to profit contributions from the Target;
- (i) The dilution impact of the Proposed Transactions, details of which are set out in Section 5.8 of this IFA Letter. Mr Thye Kim Meng who is the Chairman, Managing Director and Chief Executive Director of the Company will remain as the key driver of the Group upon completion of the Proposed Acquisition. The Vendors Parties will not have any board representation upon the completion of the Proposed Acquisition for the next financial year; and
- (j) other relevant considerations, details of which are set out in Section 5.9 of this IFA Letter, as follows:–
- There is no assurance of future profitability;
 - The Proposed Acquisition being conditional on the Proposed White Resolution; and
 - By voting in favour of the Proposed Whitewash Resolution, the Independent Shareholders will be waiving their rights to receive the general offer for all the Shares which the Vendors Parties would otherwise be obliged to make at the highest price paid or agreed to be paid by them for the Shares in the past six (6) months preceding the allotment and issue of the Consideration Shares pursuant to the Proposed Acquisition and the Proposed Allotment, in accordance with Rule 14 of the Code and Section 139 of the SFA.

Overall, based on our analysis and after having considered carefully the information available to us as at the Latest Practicable Date, we are of the opinion that, on balance, (i) the terms of the Proposed Acquisition, being the subject of the Proposed Whitewash Resolution, are fair and reasonable and (ii) the Proposed Whitewash Resolution is not prejudicial to the interests of the Independent Shareholders. We therefore advise the Independent Directors to recommend to the Independent Shareholders to vote in favour of the Proposed Whitewash Resolution.

Our opinion, as disclosed in this IFA Letter, is based solely on publicly available information and information provided by the Directors and the Management and does not reflect any projections of future financial performance of the Company or the Group after the completion of the Proposed Acquisition and the Proposed Allotment. In addition, our opinion is based on the economic and market conditions prevailing as at the Latest Practicable Date and is solely confined to our views on the Proposed Acquisition and Proposed Whitewash Resolution.

We have prepared this IFA Letter for use of the Independent Directors in connection with and for the purpose of their deliberation of the terms of the Proposed Acquisition and the Proposed Whitewash Resolution. The recommendation made by Independent Directors to the Independent Shareholders shall remain the sole responsibility of the Independent Directors.

Whilst a copy of this IFA Letter may be reproduced in the Circular, neither the Company, the Directors nor any other persons may reproduce, disseminate or quote this IFA Letter (or any part thereof) for any purpose other than for the purpose of the EGM and for the purpose of the Proposed Acquisition and Proposed Whitewash Resolution, at any time and in any manner without the prior written consent of KGI Fraser in each specific case.

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

Yours faithfully,
For and on behalf of
KGI Fraser Securities Pte. Ltd.

Tony Lim
Head of Corporate Finance

Sheila Ong
Deputy Head, Corporate Finance

INDEPENDENT VALUATION SUMMARY LETTER



Building a better
working world

Ernst & Young Solutions LLP
One Raffles Quay
North Tower, Level 18
Singapore 048583

Mailing Address:
Robinson Road
PO Box 384
Singapore 900734

Tel: +65 6535 7777
Fax: +65 6532 7662
ey.com

The Board of Directors
Darco Water Technologies Limited
123 Woodlands Industrial Park E5
E-Terrace Singapore 757498

8 January 2016

Darco Water Technologies Ltd – Proposed acquisition of 60% equity interest in Wuhan Kaidi Water Services Co., Ltd.

Independent Valuation Summary Letter

Dear Sirs:

1. Introduction

Ernst & Young Solutions LLP (“**EY**” or “**we**”) has been appointed by Darco Water Technologies Limited (“**Darco**” or the “**Company**”) to perform professional services relating to the valuation of Wuhan Kaidi Water Services Co., Ltd (“**Wuhan Kaidi**”) in connection with the proposed acquisition of 60% equity interest by the Company.

This letter has been prepared pursuant to Rule 1014 of the Singapore Exchange Securities Trading Limited Listing Manual and for the purpose of disclosure as an appendix to the Company’s Circular to be issued in relation to, inter alia, the Proposed Wuhan Kaidi Acquisition (“**Circular**”). This is a summary of the information contained in our Independent Valuation Report dated 15 May 2015 (the “**Report**”). Accordingly, this letter should be read in conjunction with the full text of the Report.

Our views are based on the current economic, market, industry, regulatory, monetary and other conditions and on the information made available to us as of the date of the Report. Such conditions may change significantly over a relatively short period of time and we assume no responsibility and are not required to update, revise or reaffirm our conclusion set out in this letter to reflect events or developments subsequent to the date of the Report.

2. Terms of reference

The objective of this letter is to provide an independent view of the fair market value of 100% equity interests in the issued and paid-up share capital of Wuhan Kaidi as at 31 December 2014 (the “**Valuation Date**”).

We are not expressing an opinion on the commercial merits and structure of the Proposed Wuhan Kaidi Acquisition and accordingly, this letter and the Report do not purport to contain all the information that may be necessary or desirable to fully evaluate the commercial or investment merits of the Proposed Wuhan Kaidi Acquisition by the shareholders of Darco. The assessment of the commercial and investment merits of the Proposed Wuhan Kaidi Acquisition is solely the responsibility of the Directors. Additionally,

our work should not be construed as investment advice to the current and prospective investors of Darco.

We have not conducted a comprehensive review of the business, operational or financial conditions of Wuhan Kaidi nor any work in relation to the feasibility of tax efficiency of the business operation of Wuhan Kaidi, and accordingly our Report does not make any representation or warranty, expressed or implied in this regard.

The scope of our engagement does not require us to express, and we do not express, a view on the future prospects of Darco and Wuhan Kaidi. We are, therefore not expressing any views on the future trading price of the shares or the financial condition of Darco upon completion of, *inter alia*, the Proposed Wuhan Kaidi Acquisition.

Our terms of reference do not require us to provide advice on legal, regulatory, accounting or taxation matters and, where specialist advice has been obtained by Darco and/or Wuhan Kaidi and made available to us, we have considered and, where appropriate, relied upon such advice.

Our work is not of the same nature as an audit, and does not constitute an audit. We are not, therefore issuing an audit opinion. Instead, our work is in the nature of a review of the information provided to us, and discussions with members of management of Darco (the **“Darco Management”**) and members of management of Wuhan Kaidi (the **“Wuhan Kaidi Management”**).

Use of our letter and the Report

This letter and the Report are addressed to, and for the use and benefit of the Directors of Darco for the purpose as set out above, and accordingly neither the Report nor this letter may be used or relied upon by, nor confer any benefit to, any other person (including without limitation, the shareholders of Darco, the professional advisors of Darco, and the prospective investors of Darco). Any recommendation made by the Directors to the shareholders of Darco shall remain the responsibility of such Directors.

Reliance on information and representation

In the course of our work, we have held discussions with Wuhan Kaidi Management and Darco Management. We have also examined and relied on information provided by them and reviewed other relevant publicly available information. We have not independently verified all such information provided or any representation or assurance made by them, whether written or verbal, and accordingly cannot and do not warrant or accept responsibility for the accuracy or completeness of such information, representation or assurance. However, we have made reasonable enquiries and exercised our judgement on such information and have performed our valuation on such basis.

Nevertheless, Wuhan Kaidi Management have confirmed to us, upon making all reasonable enquiries and to their best knowledge and belief, that the information provided to us constitute full and true disclosure, in all material respects, of all material facts relating to Wuhan Kaidi as required for the purposes of our valuation (and there is no omission of

material information, of which if any, would make any of the information considered herein inaccurate, incomplete, or misleading in any material respect).

In no circumstances shall we be liable, other than in the event of our bad faith or wilful default, for any loss or damage, of whatsoever nature arising from information material to our work being withheld or concealed from us or misrepresented to us by the Wuhan Kaidi / Darco Management and the Directors, employees, or agents of Wuhan Kaidi or Darco or any person of whom we may have made inquiries of during the course of our work.

3. Valuation methodology

We have adopted Fair Market Value as the standard of value. Fair Market Value is generally defined as the amount at which an asset could be exchanged between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, acting in an arm's length transaction, in an open and unrestricted market.

We have assessed the Fair Market Value of Wuhan Kaidi 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, we have discounted the projected free cash flows of Wuhan Kaidi with discount rates having considered, amongst all relevant risk factors, such as business size, business environment, stages of growth, riskiness of cash flows. The free cash flow of Wuhan Kaidi has been projected for the period from the financial year ended 31 December 2015 to 31 December 2018 with a terminal value attributed.

In addition, we have also assessed the reasonableness of our valuation results by cross-checking the fair market value determined under the income approach with the market multiple methodology under the market approach.

Our valuation is based on various assumptions with respect to Wuhan Kaidi, including their respective present and future financial condition, business strategies and the environment in which they will operate in the future. These assumptions are based on the information that we have been provided with and our discussions with Wuhan Kaidi Management, and reflect current expectations and views regarding future events, and therefore necessarily involve known and unknown risks and uncertainties.

Amongst other assumptions stated in the Report, the key assumptions are as follows:

1. Wuhan Kaidi is assumed to operate on a going concern basis and the current use of its assets is at their highest and best use;
2. There are no adverse changes to the economic and market conditions impacting demand across the industry landscape, as well as changes in regulatory, fiscal and other government policies in China, where Wuhan Kaidi operates;
3. The financial forecast (specifically, the forecast profit & loss statement) and its underlying assumptions reflect Wuhan Kaidi Management's future business plans and is assumed not to contravene existing regulatory and tax requirements;

4. The level of capital expenditure and net working capital projected in the financial forecast is assumed to be sufficient to meet the forecast growth;
5. The unaudited financial statements of Wuhan Kaidi for the period ending 31 December 2014 fairly reflects Wuhan Kaidi's financial position as at the Valuation Date;
6. The orderbook provided by Wuhan Kaidi's Management is a fair reflection of Wuhan Kaidi's existing and future projects which will be executed in FY15 to FY17;
7. Wuhan Kaidi is assumed to be able to renew underlying business qualifications and/or licenses with minimum costs before the expiry of such qualifications / licenses;
8. Wuhan Kaidi has proper and good title to the intangible assets, property, plant and equipment without any liens or encumbrances unless otherwise stated;
9. Wuhan Kaidi has no material or significant contingent liabilities or uncertainty, including any litigation pending or threatened, as at the Valuation Date that warrants consideration in the forecast;
10. There is no substantial commitment or uncertainty that has arisen subsequent to the Valuation Date, which is material to be considered in the forecast;
11. Wuhan Kaidi is assumed to be able to obtain the requisite debt or equity funding from financial institutions, shareholders, or potential investors on a timely and commercially reasonable terms basis to meet its cash flow requirement;
12. All related party transactions entered into by Wuhan Kaidi are transacted at arm's length; and
13. There will be no significant change in the operations and business strategy of Wuhan Kaidi subsequent to the Valuation Date.

The estimates of earnings and cash flow data, to the extent they relate to the future, reflect the expectations of the Wuhan Kaidi Management as to the business prospects of Wuhan Kaidi and are solely used in our valuation analysis and are not intended for use as forecasts or projections of future operations.

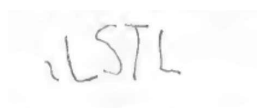
Furthermore, there will usually be differences between the estimated and actual results because events and circumstances may not occur as expected and those differences may be material.

We have set out in the Report the assumptions used in our valuation as well as risk factors that, in our opinion, may have a material impact on the valuation of Wuhan Kaidi. It should be noted that it is not an exhaustive list of all risk factors relevant to Wuhan Kaidi.

4. Conclusion

In summary and as detailed in the Report, which should be read in conjunction with this letter, the fair market value of 100% equity interests in Wuhan Kaidi is in the range of **RMB 121.5 million to RMB 148.3 million** as at the Valuation Date.

Yours faithfully,
For and on behalf of
Ernst & Young Solutions LLP



Andre Toh Sern
Partner

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 Shareholders of Darco Water Technologies Limited (the “**Company**”) will be held at 6 Battery Road #10-01 Singapore 049909 on Thursday, 17 March 2016 at 10.00 am for the purpose of considering and, if thought fit, passing the following ordinary resolutions, with or without any modifications:

Ordinary Resolution 1:

The proposed acquisition 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) for the aggregate consideration of S\$10,900,939 from Wuhan Liankai Investment Co., Ltd. (武汉联凯投资有限公司), Hong Kong Meidi Investments Holdings Co., Ltd. (香港美地投资(控股)有限公司) and Mr. Zhang Zhengda (collectively, the “Vendors”)

THAT subject to and contingent upon Resolution 3 being passed:

- (a) approval be and is hereby given to the Company for the acquisition of the 60% Equity Interest from the Vendors (the “**Proposed Acquisition**”) on the terms and subject to the conditions of the sale and purchase agreement dated 11 August 2015 (the “**SPA**”) entered into between the Company and the Vendors; and
- (b) authority be and is hereby given for the directors of the Company (“**Directors**”) to take such steps, enter into all such transactions, arrangements and agreements and execute all such documents as may be necessary or expedient for the purposes of giving effect to the Proposed Acquisition or to give effect to this Resolution or the transactions contemplated by the Proposed Acquisition.

Ordinary Resolution 2:

The allotment and issuance of an aggregate of 19,124,454 Consideration Shares to Wuhan Liankai Investment Co., Ltd. (武汉联凯投资有限公司), Wah Lee Industrial Corp. (华立企业股份有限公司), Jilead Technology Co., Ltd and Zhang Zhengda (collectively, the “Vendor Parties”) at the Issue Price of S\$0.57 for each Consideration Share in satisfaction of the Consideration

THAT subject to and contingent upon Resolution 1 and Resolution 3 being passed, the Directors be and are hereby authorised to issue and allot an aggregate of 19,124,454 new ordinary shares in the capital of the Company (the “**Consideration Shares**”) to the Vendor Parties at an issue price of S\$0.57 per share (“**Issue Price**”).

Ordinary Resolution 3:

The Proposed Whitewash Resolution for the waiver by Independent Shareholders of their right to receive a mandatory offer from the Vendors and their concert parties

THAT subject to and contingent upon Resolution 1 being passed and pursuant to the letter dated 24 November 2015 from the Securities Industry Council, the shareholders of the Company who are not involved in or interested in the Proposed Acquisition, on a poll taken, do hereby unconditionally and irrevocably waive their right to receive a general offer under Rule 14 of the Singapore Code on Take-overs and Mergers (the “**Code**”) for all the shares held by them to be

made by the Vendors and their concert parties at the highest price paid or agreed to be paid by the Vendors and their concert parties in the six (6) months prior to the Vendors and their concert parties incurring the mandatory general offer under Rule 14 of the Code, as a result of the acquisition by the Vendors (and their concert parties) of more than 30% of the voting rights in the Company pursuant to the allotment and issue of the Consideration Shares.

By Order of the Board
Thye Kim Meng
Chairman, Managing Director and Chief Executive Officer

24 February 2016

Explanatory Notes:

- (1) A member of the Company (other than a Relevant Intermediary*) entitled to attend and vote at the EGM is entitled to appoint not more than two proxies to attend and vote on his behalf. A proxy need not be a member of the Company.
- (2) If the appointer is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.
- (3) The instrument appointing a proxy or proxies must be deposited at the office of the Company's Registered Office at 123 Woodlands Industrial Park E5, Woodlands E-Terrace Singapore 757498, not less than 48 hours before the time set for the Extraordinary General Meeting or any postponement or adjournment thereof.
- (4) The instrument appointing a proxy or proxies shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under its seal or under the hand of an officer or attorney duly authorised. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the power of attorney or a duly certified copy thereof must be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.

*A Relevant Intermediary is:

- (a) a banking corporation licensed under the Banking Act (Cap. 19) 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 Futures Act (Cap. 289) and who holds shares in that capacity; or
- (c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), 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 privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Extraordinary General Meeting 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 Extraordinary General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Extraordinary General Meeting (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)

**PROXY FORM
EXTRAORDINARY GENERAL MEETING**
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.
3. CPF Investors who are unable to attend the meeting but would like to cast their votes, may inform their CPF Approved Nominees to appoint the Chairman of the Meeting as their proxy.
4. This proxy form is not valid for use by CPF Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

I/We, _____ (Name) _____ (NRIC No./Passport No.)

_____ (Address)

being a member/members of **DARCO WATER TECHNOLOGIES LIMITED** (the "Company") hereby appoint the following person(s):

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

and/or*

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

or failing the person, or either or both of the persons, referred to above, the Chairman of the Meeting, 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 6 Battery Road #10-01 Singapore 049909 on 17 March 2016 at 10.00 am and at any adjournment thereof ("**Meeting**"). I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof the proxy/proxies will vote or abstain from voting at his/her discretion.

Capitalised terms used in this Proxy Form shall bear the meanings ascribed to them in the Circular to Shareholders dated 24 February 2016 unless otherwise defined herein or where the context otherwise requires. Please refer to the Notice of EGM for a detailed description of the Resolutions.

No.	Ordinary Resolutions	Number of Votes For**	Number of Votes Against**
1.	Resolution 1 The proposed acquisition of 60% Equity Interest in Wuhan Kaidi Water Services Co., Ltd. (武汉凯迪水务有限公司) for the aggregate consideration of S\$10,900,939		
2.	Resolution 2 The allotment and issuance of an aggregate of 19,124,454 Consideration Shares to the Vendor Parties at the Issue Price of S\$0.57 for each Consideration Share in satisfaction of the Consideration		
3.	Resolution 3 The Proposed Whitewash Resolution for the waiver by Independent Shareholders of their right to receive a mandatory offer from the Vendors and parties acting in concert with them		

IMPORTANT: PLEASE READ NOTES BELOW BEFORE COMPLETING THIS PROXY FORM

* Delete accordingly.

** if you wish to exercise all your votes "For" or "Against" the relevant Resolution, please tick (✓) within the relevant box provided. Alternatively, if you wish to exercise your votes both "For" and "Against" the relevant Resolution, please insert the relevant number of Shares in the boxes provided.

Dated this _____ day of _____ 2016

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

Signature(s) of Shareholder(s) or Common Seal of Corporate Shareholder

IMPORTANT: PLEASE READ NOTES BELOW BEFORE COMPLETING THIS PROXY FORM**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 the number of Shares. If you have Shares registered in your name in the Register of Members of the Company, 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. If no number is inserted, this instrument of proxy/proxies would 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 (1) or two (2) proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
- (3) Where a member (other than a Relevant Intermediary*) appoints two (2) proxies, he/she should specify the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy. If no such proportion or number is specified, the first named proxy shall be treated as representing 100% of the shareholding and any second named proxy as an alternate to the first named proxy.
- (4) A Relevant Intermediary may appoint more than two proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number or 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 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 Meeting.
- (6) The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 123 Woodlands Industrial Park E5, Woodlands E-Terrace, Singapore 757498 not less than 48 hours before the time appointed for the Meeting.
- (7) The instrument appointing a proxy or proxies must be under the hand of the appointor or 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 any 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 Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.
- (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 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.

*A Relevant Intermediary is:

- (a) a banking corporation licensed under the Banking Act (Cap. 19) 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 Futures Act (Cap. 289) and who holds shares in that capacity; or
- (c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), 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 72 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

PERSONAL DATA PRIVACY

By 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 Annual General Meeting dated 24 February 2016.

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