



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

WUHAN KAIDI WATER SERVICE COMPANY

RE: RECEIPT OF WHISTLEBLOWER REPORT AND FOLLOW-UP ACTION TAKEN BY THE GROUP

- UPDATE ON LATEST DEVELOPMENTS: (1) FINDINGS FROM AGREED-UPON PROCEDURES CONDUCTED ON WUHAN KAIDI WATER SERVICE COMPANY (2) APPOINTMENT OF NEW FINANCE MANAGER OF WUHAN KAIDI WATER SERVICE COMPANY

1. BACKGROUND

The board of directors (the “**Board**” or “**Directors**”) of Darco Water Technologies Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) refers to the Company’s previous announcement on 24 June 2021 in relation to the receipt of a whistleblower report concerning the Company’s subsidiary in China, Wuhan Kaidi Water Service Company (“**WHKD**”), and the follow-up action taken by the Group (the “**Previous Announcement**”), as well as the responses to the queries raised by the Singapore Exchange Regulation in relation to this matter published on 16 August 2021 and 24 September 2021.

Unless otherwise defined, all terms and references used herein shall bear the same meanings ascribed to them in the Previous Announcement.

2. FINDINGS FROM AGREED-UPON PROCEDURES

- 2.1. In the Previous Announcement, it was noted that as part of the follow up action to be taken by the Group, “*the Company is to determine, in consultation with its external auditor, the scope of an agreed-upon procedure for the purposes of undertaking the following checks and verification: (I) whether the audited financial statements that were modified and submitted to the Bank were confined to those relating to FY2019; and (II) whether the audited financial statements of WHKD used for the purposes of consolidation in the Group’s audited financial statements for FY2019 and FY2020 are valid.*” The extent and scope of the agreed-upon procedures that the Company is conducting on WHKD had previously been announced by the Company on 16 August 2021.
- 2.2. The Company had engaged Crowe Horwath First Trust LLP (“**Crowe Singapore**”) to perform the agreed-upon procedures on WHKD, and this engagement was undertaken in accordance with the Singapore Standard on Related Services SSRS4400 Engagements to Perform Agreed-Upon Procedures Regarding Financial Information.

- 2.3. In performing the agreed-upon procedures, Crowe Singapore carried out, *inter alia*, the following:
- 2.3.1. interviews with the previous Executive Chairman of the Company, Mr. Wang Yaoyu (“WYY”), and the previous Head of Finance of WHKD, Mr. Li Min Jun (“LMJ”);
 - 2.3.2. a review of the loan agreements entered into by WHKD with several banks, including China Everbright;
 - 2.3.3. a comparison of the audited financial statements of WHKD for FY2019 and FY2020 (the “**FY2019 Audited Statements**” and the “**FY2020 Audited Statements**” respectively) against:
 - (a) the tax filing submissions made by WHKD for 2019 and 2020 to the relevant tax authorities in Wuhan (the “**2019 Tax Filing**” and the “**2020 Tax Filing**” respectively);
 - (b) the management accounts of WHKD for FY2019 and FY2020 as extracted from its SAP accounting system (collectively, the “**Management Accounts**”); and
 - (c) the modified FY2019 Audited Statements and the modified FY2020 Audited Statements (the “**Modified FY2019 Statements**” and the “**Modified FY2020 Statements**” respectively); and
 - 2.3.4. a comparison of the audited financial statements of WHKD for FY2017 and FY2018 (the “**FY2017 Audited Statements**” and the “**FY2018 Audited Statements**” respectively) against the tax filing submissions made by WHKD for 2017 and 2018 to the relevant tax authorities in Wuhan (the “**2017 Tax Filing**” and the “**2018 Tax Filing**” respectively).
- 2.4. A summary of the key findings from the agreed-upon procedures is summarized below.
- 2.4.1. Modifications were made to both the FY2019 Audited Statements and the FY2020 Audited Statements. However, only the Modified FY2019 Statements were circulated externally. The Modified FY2019 Statements were submitted to China Everbright, which had provided WHKD with an ongoing bank facility. Crowe Singapore was given to understand from WYY and LMJ that the FY2019 Audited Statements were amended as WHKD had recorded losses for FY2019 but China Everbright required WHKD to be in a profitable position. It should be noted that based on Crowe Singapore’s review of the loan agreement with China Everbright, no specific condition as to profitability was noted although there was a general clause providing that the profitability of the main business of WHKD “*should not be weak*”.
 - 2.4.2. Crowe Singapore was given to understand from LMJ that the Modified FY2019 Statements were prepared by manually replacing the income statement, balance sheet and equity statement in the FY2019 Audited Statement, and that no amendments or adjustments were made to the accounting records of WHKD. This is consistent with Crowe Singapore’s separate finding that there are no differences noted between the FY2019 Audited Statements and the FY2020 Audited Statements and the Management Accounts.

- 2.4.3. However, Crowe Singapore noted discrepancies in certain information reported in the 2019 Tax Filing and the 2020 Tax Filing, as compared with the same information stated in the FY2019 Audited Statements and the FY2020 Audited Statements.

	2019 Tax Filing / 2020 Tax Filing	FY2019 Audited Statements / FY2020 Audited Statements	Difference (RMB)
2019			
Trade payables	73,771,759.65	70,146,980.89	3,624,778.76
R&D expenses	10,668,521.10	7,043,742.34	3,624,778.76
2020			
Administrative expenses	13,840,065.88	9,442,252.73	4,397,813.15
R&D expenses	-	8,022,591.91	(8,022,591.91)
			(3,624,778.76)

Crowe Singapore was given to understand from LMJ that in the 2019 Tax Filing, the R&D expenses were increased by RMB3,624,778.76 in order for WHKD to maintain its high-technology enterprise status, which entitled it to a concessionary tax rate of 15% (as compared to the usual rate of 25%). Crowe Singapore was further given to understand that in the 2020 Tax Filing, the R&D expenses were decreased by the corresponding amount. Crowe Singapore noted that while the current three-year validity period of the special tax status commenced on 1 December 2020, the financial year of WHKD commences on 1 January, and that this misalignment could potentially explain the discrepancies in the figures. It was further noted by Crowe Singapore that due to the RMB20 million of tax losses carried forward from FY2019 to FY2020, even if WHKD had been subjected to the standard tax rate of 25%, there would not have been any material impact to the FY2020 financials as the carried forward tax losses would have been sufficient to offset against the taxable income for FY2020, and accordingly would mean that there would have been no material impact to the FY2020 and FY2019 financials. WHKD had in FY2019 reported a net loss of RMB23.2 mil.

- 2.4.4. No discrepancies were noted between the 2017 Tax Filing and the FY2017 Audited Statements, as well as between the 2018 Tax Filing and the FY2018 Audited Statements.
- 2.4.5. The differences between the FY2019 Audited Statements and the FY2019 Modified Statements, as well as between the FY2020 Audited Statements and the FY2020 Modified Statements, are consistent with the original findings by the management of the Company.

- 2.5 In light of the above, the Board has determined that WHKD will benefit from advice and guidance of tax specialist going forward. Accordingly, the Board has instructed the Management to appoint a tax specialist to provide such advice and guidance as well as to look into the above matters to determine if any follow-up actions are required.

3. APPOINTMENT OF NEW FINANCE MANAGER

The Board would also like to update the shareholders of the Company that as part of the measures taken as follow-up actions to address the issues arising from the whistle-blower report, the

management of WHKD has appointed Ms. Zhan Miao as the new finance manager of WHKD with effect from 29 October 2021 in place of LMJ.

4. CAUTION IN TRADING

Shareholders and potential investors of the Company are advised to read this announcement and any further announcements made by the Company carefully. Shareholders and potential investors of the Company are advised to refrain from taking any action with respect to their securities in the Company which may be prejudicial to their interests, and to exercise caution when dealing in the securities of the Company. Shareholders and potential investors of the Company should consult their stockbrokers, bank managers, solicitors or other professional advisers if they have any doubt about the actions they should take.

BY ORDER OF THE BOARD

Kong Chee Keong
Executive Director and Chief Executive Officer
30 November 2021