



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

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**WUHAN KAIDI WATER SERVICE COMPANY**

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

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**1. BACKGROUND**

The board of directors (the “**Board**”) of Darco Water Technologies Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) has received a whistleblower report concerning the Company’s subsidiary in China, Wuhan Kaidi Water Service Company (“**WHKD**”).

According to the whistle blower, the Executive Chairman of the Company had instructed the Head of Finance of WHKD to modify certain key financial figures in WHKD’s audited financial statements for the financial year ended 31 December 2019 (“**FY2019**”) (“**Modified Accounts**”) that had been signed off by WHKD’s statutory auditors, Crowe Shanghai (a member firm of Crowe Global), and to submit the Modified Accounts to a bank in China (the “**Bank**”) which has extended banking facilities to support the business and operations of WHKD (the “**Banking Facilities**”). The Banking Facilities granted to WHKD by the Bank comprises facilities for the issuance of performance bonds amounting in aggregate to RMB13.58 million (approximately equivalent to S\$2.83 million) as guarantees for the performance by WHKD of its obligations specified in the contracts entered into with WHKD’s customers and for the advancement of a short term loan of RMB3.00 million (approximately equivalent to S\$0.63 million) collateralized against a share pledge and corporate guarantee by Wuhan Lian Kai Investment Co., Ltd (“**WHLK**”). WHLK is the minority shareholder with 13% shareholding interest in WHKD.

Based on preliminary investigations conducted by the Management reporting to the Board (excluding the Executive Chairman of the Company), the Modified Accounts submitted by the Involved Personnel to the Bank misrepresented the true financial performance and position of WHKD (in particular, that WHKD had recorded a profit of RMB1.7 million for FY2019 as opposed to a loss of RMB23.2 million as reported to the Company).

Currently as far as the Board is aware, only the Executive Chairman of the Company, Mr. Wang Yaoyu together with the Head of Finance of WHKD and a staff from the Finance Department (“**Involved Personnel**”) are involved in the misrepresentation and they have admitted the existence and submission of the Modified Accounts as aforesaid but have assured the Company that the misrepresentation and use of the Modified Accounts were confined to the submission of such Modified Accounts to the Bank with the sole intention of ensuring that the Bank continues

to extend the Banking Facilities to WHKD and that no personal benefits were derived by any of them. The Executive Chairman of the Company and the Head of Finance of WHKD have also assured the Company verbally and in writing of the veracity of the financial information that WHKD had periodically provided to the Company for its financial reporting.

Notwithstanding the aforesaid intention and even if no personal benefits were accrued to the Involved Personnel, the Board regards the act of modifying the audited accounts of WHKD and submitting the Modified Accounts as wholly unacceptable and a serious misconduct on the part of the Involved Personnel.

## **2. VERACITY OF THE GROUP'S AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2019 ("FY2019") AND 31 DECEMBER 2020 ("FY2020")**

Based on the preliminary assessment of the Management and the Board of the Company, the audited financial statements of the Group for FY2019 and FY2020 are not affected by the Modified Accounts and nothing has come to the attention of the Management and the Board to suggest that the audited financial statements do not reflect a true and fair view of the financial position of the Company and of the Group as at 31 December 2019 and 2020 and the financial performance, changes in equity and cash flows of the Group for the respective financial year then ended.

## **3. ACTIONS TAKEN AS WELL AS PROPOSED TO BE TAKEN BY THE GROUP**

The Board has immediately sought and obtained legal opinions from Morgan Lewis Stamford LLC working with and supported by the Shanghai office of its affiliate firm, Morgan, Lewis & Bockius LLP and local counsel) in this matter and directed the board of directors of WHKD in respect of which the Company has majority representation ("**WHKD Board**") to ensure this does not recur. The Board has also sought guidance on this matter from the Company's Compliance Advisor, W Capital Markets Pte Ltd.

The Company has been advised by the lawyers that under the relevant Chinese laws, the act of modifying certain key financial figures in WHKD's audited financial statements for the financial year ended 31 December 2019 and submitting such Modified Accounts to the Bank would constitute a violation of Chinese laws. Such act could possibly attract administrative, civil and, in the worst-case scenario, criminal liabilities under the relevant Chinese laws. Such potential liabilities may include:

- Administrative Liability: Such act could attract a range of fines on WHKD, with the amount of the fines depending on factors such as the amount of "unlawful gains" obtained. The personnel involved could also be subject to fines.
- Civil Liability: The civil liability that such act could attract is dependent on the terms of the contractual agreements between WHKD and the Bank. Under Chinese laws, the Bank may have the right to claim for damages or terminate the Banking Facilities.

The personnel involved may also potentially be liable for any loss incurred by WHKD as a result of such personnel's actions.

- Criminal Liability: Under Chinese laws, such act would constitute an offence of obtaining loans by deception (骗取贷款罪), upon which fines may be imposed and the person directly in-charge and those directly liable may be imprisoned (with or without a fine concurrently). However, whether such act constitutes the crime of obtaining loans by deception and the seriousness of such criminal offence (and the applicable criminal penalties) are highly dependent on the merits of the case (such as whether such act has caused "heavy losses" to the lending banks) as well as the applicable policy guidance and regulatory practices (such as whether any lenient treatments may be applicable resulting from policy environment to support regular business activities of enterprises during challenging economic situations). It should be noted that whether such act amounts to a criminal offence under the applicable Chinese laws and regulations is to be determined by the regulators or a court of law and not by WHKD or the Company. Further, even if the act is not categorized as a criminal offence, it remains a violation of law.

The Company has been further advised to consider taking, among others, the following next steps:

- (a) Undertake further investigations to assess the contractual obligations of and risks faced by WHKD under the relevant documentation signed with the Bank, as well as identifying other non-compliance issues concerning WHKD and/or its management (if any).
- (b) Approach and provide the Bank with the unmodified audited financial statements for FY2019 as soon as practicable and work with the Bank with the primary aim of achieving the continued grant of the Banking Facilities by the Bank while minimizing disruption to the continued operations of WHKD.
- (c) In light of the fact that the Involved Personnel had conducted themselves in violation of what is considered good and proper conduct, for the Board and the Nominating Committee of the Company to consider and assess the next steps to be taken in relation to the Involved Personnel, including whether such Involved Personnel remain suitable to continue acting in their respective positions in the Group, as well as to consider placing the Involved Personnel on immediate leave of absence in the interim.
- (d) Consult with the external auditors of the Company to determine 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, as well as to determine the extent and scope of agreed-upon procedures that the Company should consider conducting on WHKD.

- (e) To make the relevant announcement(s) to update Shareholders on the situation as such matters constitute material information necessitating disclosure under the Listing Rules of the SGX-ST.

Following due consideration, the following actions, among others, has been or will be taken as directed by the Board:

- (i) The Executive Chairman of the Board has agreed to resign from the Board and such resignation has been accepted and shall take immediate effect.
- (ii) As the Executive Chairman of the Board is currently also the legal representative and chairman of WHKD as well as a director nominated by WHLK (in its capacity as the minority shareholder of WHKD) to the WHKD Board, the Board has directed (and the Executive Chairman has agreed) that immediate steps be taken to replace the legal representative and the chairman of WHKD and to request WHLK to nominate a replacement representative director. Pending the aforesaid replacements, the Executive Chairman shall immediately be placed on leave of absence with all his duties, powers and responsibilities as legal representative, chairman and director on the WHKD Board suspended.
- (iii) The Head of Finance of WHKD and a staff member from the Finance Department of WHKD who are two of the Involved Personnel be placed on leave of absence immediately or as soon as practicable, taking into consideration the need to ensure business continuity. Both of such Involved Personnel will need to account and report directly to the WHKD Board or such person that the WHKD Board nominates as its representative. The WHKD Board will seek to appoint suitable replacements to assume the duties of the Involved Personnel as soon as possible.
- (iv) Pending above-mentioned replacements, Mr. Zhao Yongchang, the Chief Operating Officer of the Group who has been based in WHKD since April 2021 and who is also the Managing Director of WHKD, will take over the oversight and supervision of the Finance Department of WHKD.
- (v) The WHKD Board be and has been directed, and the WHKD Board has agreed, to contact the Bank as soon as possible to minimize any disruption to the current arrangements relating to the Banking Facilities and to tighten the oversight of the finance functions within WHKD. The Company wishes to highlight that it has also since April 2021 introduced additional procedures in WHKD relating to control over the use of the company and finance seals of WHKD, including the requirement that any use of the company seal must be approved by Mr. Zhao Yongchang, the aforementioned Chief Operating Officer of the Group and Managing Director of WHKD. Any use of the finance seal will generally also require the concurrent use of the company seal, save for instances involving the issue of invoices and confirmation of bank statements, whereby it can be used independently of the company seal.
- (vi) 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 findings of such agreed-upon procedure are to be submitted to the Audit Committee of the Company.

#### **4. PRELIMINARY ASSESSMENT OF FINANCIAL IMPACT**

The Board notes that in the worst-case scenario, the Bank may elect to terminate or withdraw the Banking Facilities whereupon WHKD will be required to find alternative banking facilities and/or funding, failing which the ability of WHKD to continue operating its business may be materially and adversely affected.

Following an initial assessment by the Management of the Company based on information currently available and assuming a worst-case scenario where the Bank terminates and withdraws the Banking Facilities as well as taking into account the existing cash position of the Group, the Board has been advised that currently the Group as a whole will **not** encounter any going concern issue and that the Company will remain in a net assets position (including a net current assets position).

The Board would like to note that the existing cash position of the Group stands at S\$20.2 million as at the date of this announcement and that the Group has not provided any guarantee for the business and operations of WHKD. The Board would like to further note that the total amount of banking facilities from various banks in China comprising facilities for the issuance of performance bonds amounting to RMB20.57 million (approximately S\$4.29 million) as guarantees for the performance by the WHKD of its obligations specified in the contracts entered into with its customers and for short-term loans amounting to a total of RMB4.17million (approximately S\$0.87 million) extended to WHKD as at the date of this announcement represents 11.5% of the Group's net assets based on the latest announced audited financial statements of the Group for FY2020.

The contribution of WHKD to the financial performance of the Group for FY2019 (audited) and FY2020 (audited) is noted as follows:

FY2019

	WHKD	Group	WHKD's Contribution expressed as a percentage viz., the Group's Financial Performance
	S\$'000	S\$'000	%
Revenue	29,996	74,801	40
Gross Profits	1,999	9,999	20
Net Loss Before Tax	(9,942)	(11,898)	84
Net Loss After Tax	(9,018)	(11,481)	79
Net Assets	9,654	43,145	22
Net Tangible Assets	9,500	39,552	24

FY2020

	WHKD	Group	WHKD's Contribution expressed as a percentage viz., the Group's Financial Performance
	S\$'000	S\$'000	%
Revenue	40,728	78,082	52
Gross Profits	5,685	13,614	42
Net Profit Before Tax	1,221	1,821	67
Net Profit After Tax	1,242	1,285	97
Net Assets	11,500	44,878	26
Net Tangible Assets	11,494	43,967	26

**5. EXERCISE OF CAUTION ADVISED**

The Board will continue to monitor and assess the situation and the Company will make further announcements as and when there are material developments or findings concerning the above. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company and, when in doubt, are advised to consult with their own legal advisors, financial advisors, stockbrokers, bank managers and/or other professional advisors.

**BY ORDER OF THE BOARD**

Poh Kok Hong  
Executive Director and Chief Executive Officer

24 June 2021