
ANNOUNCEMENT PURSUANT TO RULE 703 OF THE LISTING MANUAL

UPDATE ON LEGAL MATTERS RELATING TO THE COMPANY'S SUBSIDIARY, WUHAN KAIDI WATER SERVICES CO., LTD.

1. INTRODUCTION

1.1 The Board of Directors (the “**Directors**” or the “**Board**”) of Darco Water Technologies Limited (the “**Company**” and together with its subsidiaries, collectively, the “**Group**”) refers to the Company’s previous announcements on 6 November 2020 and 3 August 2021 (the “**Previous Announcements**”) in relation to, *inter alia*, the following:

- (a) the letter of demand (the “**China Construction Letter of Demand**”) issued by the Company’s subsidiary, Wuhan Kaidi Water Services Co., Ltd. (“**WHKD**”), to China Construction Third Engineering Bureau Co., Ltd. (中建三局集团有限公司) (“**China Construction**”) in respect of claims made for engineering work done provided by WHKD under the Yinchuan Project (银川项目) (the “**China Construction Engineering Claim**”);
- (b) the letter of demand (the “**Tai Shan Letter of Demand**”) issued by WHKD to Tai Shan Group Co., Ltd (泰山集团股份有限公司) (“**Tai Shan**”) in respect of claims made for overdue accounts receivables for engineering services provided by WHKD to Tai Shan (the “**Tai Shan Claim**”);
- (c) the letter of demand (the “**KTYX Letter of Demand**”) issued by WHKD against Kuitun Yuanxin Sewage Treatment Co., Ltd (奎屯源鑫污水处理有限公司) (“**KTYX**”) in respect of claims made for overdue accounts receivables for installation and related technical services provided by WHKD to KTYX under the Kuitun Tianbei New District sewage treatment plant project (奎屯天北新区污水处理厂项目) (the “**KTYX Claim**”); and
- (d) the civil complaint (the “**Civil Complaint**”) lodged by WHKD against China Construction in respect of claims by WHKD against China Construction for overdue accounts receivables for equipment supply services provided by WHKD to China Construction under the Yinchuan Binhe New Area Sewage Treatment Plant Phase I Project (银川滨河新区污水处理厂一期工程项目污水处理设备采购买卖合同) (the “**China Construction Equipment Claim**”),

(collectively, the “**WHKD Legal Matters**”).

1.2 The Board wishes to update shareholders on the status of the WHKD Legal Matters.

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

2. THE CHINA CONSTRUCTION ENGINEERING CLAIM

- 2.1 As disclosed in the Previous Announcement on 6 November 2020, WHKD had demanded in the China Construction Letter of Demand that China Construction repay the fixed amount of RMB2,200,000 (equivalent to approximately S\$443,270) to WHKD within 10 working days of receipt of the China Construction Letter of Demand.
- 2.2 The Company wishes to update shareholders that China Construction has not repaid the amount claimed under the China Construction Letter of Demand. WHKD is currently discussing with their lawyers on the next steps to be taken.
- 2.3 As disclosed in the Previous Announcement on 6 November 2020, the Company previously had, in its audited financial statements for the financial year ended 31 December 2019 ("FY2019"), made full impairment in respect of the China Construction Engineering Claim. Accordingly, the impact of any non-recovery amounts under the China Construction Engineering Claim has already been reflected in its audited financial statements for FY2019.

3. THE TAI SHAN CLAIM

- 3.1 As disclosed in the Previous Announcement on 6 November 2020, WHKD had demanded in the Tai Shan Letter of Demand that Tai Shan repay the amount of RMB514,405.71 (equivalent to approximately S\$103,650) to WHKD within 5 working days of receipt of the Tai Shan Letter of Demand.
- 3.2 After netting certain project work undertaken by Tai Shan themselves amounting to RMB69,000 (equivalent to approximately S\$13,900), the Company has, on 24 June 2021, reached an agreement that Tai Shan will pay a total net sum of RMB445,405.71 (equivalent to approximately S\$89,740) to WHKD in accordance with the following timeline:
- (a) RMB100,000 to be paid by 30 June 2021;
 - (b) RMB100,000 to be paid by 31 July 2021.
 - (c) RMB245,405.71 to be paid by 30 November 2021.

As of the date of this announcement, the amounts set out above have been paid to WHKD by Tai Shan accordingly.

- 3.3 Further to the Previous Announcement on 6 November 2020, the Company wishes to clarify that it has, in its audited financial statements for the financial year ended 31 December 2020 ("FY2020") made an impairment of RMB2,450 in respect of the Tai Shan Claim. As all the amounts had been collected, the impairment of RMB2,450 made in FY2020 will be reversed out in the financial year of the Company ending 31 December 2021 ("FY2021").

4. THE KTYX CLAIM

- 4.1 As disclosed in the Previous Announcement on 3 August 2021, WHKD had demanded in the KTYX Letter of Demand that KTYX repay the unpaid amount owing to WHKD from KTYX of RMB7,180,000 (equivalent to approximately S\$1,446,670) to WHKD within 5 working days of receipt of the KTYX Letter of Demand.

- 4.2 The Company wishes to update shareholders that KTYX has not repaid the amount claimed under the KTYX Letter of Demand. WHKD has currently engaged their lawyers to prepare the relevant documents to commence court proceedings against KTYX in relation to the unpaid amounts owing to WHKD.
- 4.3 As disclosed in the Previous Announcement on 3 August 2021, the Company had previously, in its audited financial statements for FY2020, made a partial impairment of RMB3,051,000 (equivalent to approximately S\$614,740) in respect of the sums due and owing to WHKD by KTYX under the KTYX Claim.
- 4.4 Based on the Management's assessment thus far and barring any unforeseen circumstances or events, the Company is of the opinion that there is no further impairment required to be made in the financial statements of the Company for FY2021 in respect of these unpaid amounts owing to WHKD by KTYX.

5. THE CHINA CONSTRUCTION EQUIPMENT CLAIM

- 5.1 As disclosed in the Previous Announcement on 3 August 2021, WHKD had lodged the Civil Complaint with the People's Court of Wuhan East Lake New Technology Development Zone (武汉东湖新技术开发区人民法院) for the repayment of the outstanding and overdue amount owing to WHKD from China Construction of RMB3,320,593.05 (equivalent to approximately S\$669,054), as agreed between the parties for overdue accounts receivables for equipment supply services provided by WHKD to China Construction.
- 5.2 The Company wishes to update shareholders that WHKD and China Construction had, through court mediation on 18 August 2021, entered into an agreement whereby the parties had agreed, *inter alia*:
- (a) that China Construction shall pay the amount of RMB3,320,593.05 (equivalent to approximately S\$669,054) to WHKD in the following timeline:
 - RMB1,992,355.83 to be paid by 30 September 2021, and
 - the remaining amount of RMB1,328,237.22 to be paid by 21 December 2021; and
 - (b) that WHKD shall bear the costs of the Civil Complaint amounting to RMB18,507.
- 5.3 As disclosed in the Previous Announcement on 3 August 2021, the Company had previously, in its audited financial statements for FY2020, made a partial impairment of RMB1,000,000 (equivalent to approximately S\$201,486) in respect of the sums due and owing to WHKD by China Construction under the China Construction Equipment Claim.
- 5.4 Based on the Management's assessment thus far and barring any unforeseen circumstances or events, the Company is of the opinion that there is no further impairment required to be made in the financial statements of the Company for FY2021 in respect of the amounts due and owing to WHKD by China Construction under the Yinchuan Project for the supply of equipment.

6. PROVISION FOR IRRECOVERABLE ACCOUNTS RECEIVABLES AND IMPACT ON THE FINANCIAL POSITION OF THE COMPANY

- 6.1 In the unlikely event that further impairment is subsequently required to be made, and based on information available to the Company as of the date hereof, the maximum further impairment amount that may be required to be made in the financial statements of the Company for FY2021 will be approximately RMB4,702,000 (equivalent to approximately S\$947,000).
- 6.2 The above maximum impairment, if made, will have a material impact on the financial performance of the Company. Based on the latest audited consolidated financial statements of the Company for FY2020, the further impairment will amount to approximately 52% of the Group's profit before tax for FY2020.

7. CAUTION IN TRADING

Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company. The Company will make the necessary announcements as and when there are further developments in relation to the above matter. Shareholders and potential investors are advised to read this announcement and any further announcements by the Company carefully, and should consult their stock brokers, bank managers, financial advisors, legal advisors and/or other professional advisors 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

27 September 2021