

Darco Water suspects fraud by Taiwan subsidiary ex-senior staff amounting to NT\$186.20 million (approx. S\$8.09 mil.)

- Completes investigation on Taiwan subsidiary; four police reports filed to date
- Suspects financial account manipulation by former General Manager, Admin Manager and Accounting Manager of Taiwan subsidiary
- Seeking all possible means to recover embezzled amount, identified NT\$79.0 million asset (approx. S\$3.4 million)

Singapore – 22 November 2010 – Mainboard-listed Darco Water Technologies Limited ("Darco" or the "Group"), a provider of integrated engineering and knowledge-based water treatment solutions, suspects considerable financial account manipulation by the former General Manager, Admin Manager and Accounting Manager of its Taiwan subsidiary, Darco Engineering Taiwan ("DET") for a estimated total defraud amount of NT\$186.2 million (approx. S\$8.09 million).

These findings came as a result of the investigation by DET to conduct checks on the accounting records of DET after the Group suspected earlier this year of possible misappropriation of funds following several extraordinary and large administrative cash advances, unsubstantiated project costs and unusual cost overruns and losses in DET.

The investigation discovered considerable financial account manipulation conducted by DET's former General Manager Mr Chen Kuai (陳塊), 54 years old, former Administration Manager Ms Nina Chiu (邱士菁), 46 years old, and former Accounting Manager Ms Lydia Chiu (邱淑琴), 40 years old, collectively known as the "Parties".

The investigation has discovered that numerous fraudulent transactions have been passed off either as legitimate administration expenses or project costs and petty cash. These transactions were generally conducted with the assistance of third parties in the creation of false contracts. The Group's fund was then fraudulently transferred once tax invoices were received from the third parties. The investigation also discovered that the Parties had regularly instructed DET's accounting staff to withdraw large sums as petty cash without adequately accounting for their usage.

DET has since filed four police reports to date involving more than 100 transactions against the Parties for working with a number third parties and companies to cheat DET for the total amount of NT\$186.20 million (approx. S\$8.09 mil.)

- 1) The first police report was filed on 13 July 2010 for criminal charges involving breach of trust, fraud and embezzlement amounting to NT\$40.0 million (approx. S\$1.7 million) by Mr Chen, Ms Nina and Ms Lydia involving 6 other companies and an individual
- 2) The second police report was filed on 23 August 2010 for criminal breach of trust, fraud and embezzlement amounting to NT\$43.0 million (approx. S\$1.9 million) by Mr Chen, Ms Nina and Mr Fan Ming Jun (范名俊), a business associate
- 3) The third and fourth police reports were filed on 19th November 2010 for misappropriating petty cash, fraud and embezzlement amounting to NT\$36.8 (approx. S\$1.6 million) by the Parties
- 4) The Group expects more charges for both criminal and civil claims to recover the remaining NT\$66.4 million (S\$2.9 million) of the total sum suspected of being misappropriated.

The investigation revealed that the frauds, systematic and multiple, started about six to seven years ago and were repeated every year with increased intensities and size in the last two to three years. The investigation uncovered the following findings of ways in which company fund were misappropriated:

- 1) Of the NT\$80.0 million (approx. S\$3.5 million) was systematically withdrawn as petty cash over 6 to 7 years by Ms Nina Chiu for which significant amount NT\$37.0 million (S\$1.6 million) was for fraudulent claims on consultancy fees, non-existence project materials, as well as fictitious claims for travel and living allowances NT\$8.0 million (S\$0.3 million) on behalf of employees and visitors when none of them did receive such disbursement.
- 2) About NT\$10.0 million (S\$0.4 million) was suspected to have been misappropriated by Mr Chen and Nina Chiu to pay personal debts and hire purchase agreement for personal benefits NT\$6.0 million (S\$0.3 million)
- 3) About NT\$75.0 million (S\$3.3 million) was fraudulently paid to various sub-contractors for no actual work done; for example later, in one instance, a contractor admitted, in return it paid NT\$27.0 million (approx. S\$1.2 million) to Ms Nina in cash.
- 4) About NT\$46.0 million (S\$2.0 million) was paid to business associates by way of fraudulent contracts and consultancy fees.

Following the investigation findings and filing of the police reports, DET has appointed lawyers to recover the misappropriated funds.

The lawyers have advised that DET has a good chance to recover approximately NT\$79.0 million (approx. S\$3.4 million), which was injected by Chen Kuai, into Darco Puding BOT Project (Special Purpose Vehicle), in the name of Ms Nina, as a substantial shareholder . The Group suspects that this sum of money is part of the misappropriated fund. This amount remains in the SPV (Special Purpose Vehicle), for which the Group has majority control.

The lawyers have also recommended that the Group seek compensation from those third parties who had knowingly received money from DET or have assisted in those fraudulent transactions. The lawyers have also suggested exploring the possibility to seek compensation from third parties who may have failed in their professional duties if such negligence in duties can be established.

On how such a scale of fraud was possible, Mr Thye Kim Meng, Executive Chairman and CEO of Darco, commented, “The suspects were senior management entrusted with company funds, with each having executive and check and balance functions. We believe they have collaborated to pull off such systematic and massive fraud for the size of DET, by participating directly or assisting passively. Internal check and balances were thus made totally useless. However, we wonder if independent audit could have detected and alarms are raised earlier.”

The misappropriated amount has been classified as cost to business. Whilst seeking all possible avenues to recover the entire amount, the Group is not able to estimate how much it can recover from all involved in the frauds, especially those involving third parties.

Mr Thye concluded, “On behalf of Darco, I would also like to thank Mr KC Yin and the staff of Adept Public Accountant Corporation, Singapore for their invaluable assistance in the initial stages of the investigation. We would also like to thank the sub-contractors of DET who have helped in the investigation and all those who have led us to discover this major fraud.”

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About Darco Water Technologies Limited

Listed on SGX in 2002, Darco is a provider of integrated engineering and knowledge-based water treatment solutions. Established in 1999 to design, fabricate, assemble, install, commission and service engineered water systems for industrial use in Singapore and Malaysia, the Group has since expanded into soil remediation and solid-waste recycling in Taiwan.

The Group, which has operations in Singapore, Malaysia, the PRC, Taiwan, Philippines and Indonesia, serves companies across diverse industries – electronics, semiconductor, power, textile, food and beverage, printed circuit board, solar-energy and pharmaceuticals, and takes on municipal water and wastewater projects.

For more information, please refer to www.darcowater.com



**Media Release
For Immediate Release**

Issued for and on behalf of Darco Water Technologies Ltd.

By Financial PR Pte Ltd

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