



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

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**RESPONSES TO SINGAPORE EXCHANGE SECURITIES TRADING LIMITED'S QUERIES  
ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31  
DECEMBER 2020**

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The Board of Directors ("**Directors**") of Darco Water Technologies Limited ("**Company**" and together with its subsidiaries, collectively, "**Group**") refers to the Company's Annual Report for the financial year ended 31 December 2020 released on the SGXNET on 13 April 2021. The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 26 April 2021 (each, an "**SGX Query**") as follows:

**SGX Query 1:**

With reference to the audited consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows on page 71 and 74 – 76 of the Company's Annual Report 2020 respectively, please provide an explanation for the material difference in the following:

- (a) Profit / (Loss) for the financial year of approximately \$1,285,000 as compared to the unaudited financial results announcement of the Company of \$1,350,000;
- (b) Total comprehensive income/(loss) for the financial year of approximately \$1,514,000 as compared to the unaudited financial results announcement of the Company of \$1,644,000;
- (c) Net cash used in operating activities of approximately \$474,000, as compared to the unaudited financial results announcement of the Company of \$1,436,000; and
- (d) Net cash generated from/(used in) investing activities of approximately \$(524,000), as compared to the unaudited financial results announcement of the Company of \$410,000 for the financial year ended 31 December 2020.

Please also explain whether and how the Company has complied with Listing Rule 704(6).

**Company's response to SGX Query 1:**

Explanation for the material difference are as follows:

- (a) The reduction in profit for the financial year is mainly due to:
  - (i) adjustment on the reversal of deferred tax assets amounting to \$110,000 has caused the increase in the income tax expenses; and
  - (ii) adjustment on the error noted for intercompany balances elimination amounting to \$60,000 has caused the increase in reversal of impairment loss on financial assets.
- (b) The reduction in total comprehensive income is mainly due to:
  - (i) reduction in the profit for the financial year amounting to \$65,000 as explained in the response to query (a) above; and

- (ii) reduction in other comprehensive income amounting to \$65,000, resulting from the adjustments on the effects of the currency translation differences of foreign subsidiaries.
- (c) The changes of cash flows in operating activities is mainly due to the adjustment on the withdrawal of fixed deposits and bank balances pledged, which has increased from \$220,000 as per unaudited financial results to \$1,235,000 in the audited results.
- (d) The changes of cash flows in investing activities is mainly due to the adjustment on the withdrawal of fixed deposits with tenure more than 3 months, which has decreased from \$937,000 as per unaudited financial results to \$41,000 in the audited results.

The Company, having assessed the above changes and consulting with its Compliance Advisor, was of the view that the changes did not materially change the profit for the financial year, net assets and cash position of the Company. Therefore, the Company did not release an announcement in accordance with Rule 704(6) as it did not consider the changes to be material adjustments.

#### **SGX Query 2:**

Provision 8.1 of the Code of corporate governance 2018 (the “Code”) states that “The company discloses in its annual report the policy and criteria for setting remuneration, as well as names, amounts and breakdown of remuneration of:

- (a) each individual director and the CEO; and
- (b) at least the top five key management personnel (who are not directors or the CEO) in bands no wider than S\$250,000 and in aggregate the total remuneration paid to these key management personnel.” (emphasis added)

Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code, the provision from which it has varied, explain the reason for variation and provide an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. We note that the Company had not complied with Provision 8.1 of the Code with regard to the disclosure of the amounts of remuneration of each individual director and the CEO, and at least the top five key management personnel (who are not directors or the CEO) in bands no wider than S\$250,000. No explanations were provided for in the Company’s FY2020 annual report on how it is consistent with the intent of Principle 8 of the Code. Please clarify how the practices the Company had adopted are consistent with the intent of Principle 8 of the Code, which requires transparency on the Company’s remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.

#### **Company’s response to SGX Query 2:**

Principle 8 of the Code of Corporate Governance dated 6 August 2018 (the “Code”) states that “*The company is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.*”.



The Company is transparent on its remuneration policies and the procedure for setting remuneration

As disclosed in pages 31 and 32 of the Company's annual report for the financial year ended 31 December 2020 (the "**FY2020 Annual Report**"):

- (a) The board of directors of the Company (the "**Board**") has a formal and transparent procedure for developing policies on director and executive remuneration, and for fixing the remuneration packages of individual directors of the Company ("**Directors**") and key management personnel.
- (b) No Director is involved in deciding his or her own remuneration, and each Director shall abstain from voting on any resolution and making any recommendation and/or participating in any deliberation in respect of his or her own remuneration package.
- (c) The Remuneration Committee of the Company also periodically reviews and makes recommendations to the Board (i) a framework of remuneration for the Board and key management personnel, (ii) the specific remuneration packages for each Director as well as for the key management personnel, (iii) all aspects of remuneration (including Directors' fees, salaries, allowances, bonuses, options, share-based incentives and awards, benefits in kind and termination payments) to ensure that they are fair and to avoid rewarding poor performance, and (iv) the Company's obligations arising in the event of termination of the executive Directors' and key management personnel's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous.

The Company is transparent on the level and mix of remuneration

As disclosed in pages 34 to 36 of the Company's FY2020 Annual Report:

- (a) There is a table setting out the names and breakdown of remuneration of each individual Director and the chief executive officer ("**CEO**") in bands of S\$250,000.
- (b) The Directors' fees payable to the independent non-executive Directors, namely, Mr Sim Guan Seng, Ms Gn Jong Yuh Gwendolyn, Ms Ong Joo Mien Joanna and Mr Kong Chee Keong for the FY2020 were S\$16,139, S\$30,000, S\$28,533 and S\$13,205 respectively. The Directors' fees payable to the non-executive Director, namely, Mr Wang Zhi was S\$18,082.
- (c) There is a table setting out the names and breakdown of remuneration of the top two key management personnel (who are not Directors or the CEO) in bands of S\$250,000. As the Company only considers two of its executives (who are not Directors or the CEO) as key management personnel, the Company only disclosed the names and breakdown of remuneration of these two executives.
- (d) The total remuneration paid to these two executives for FY2020 amounted to approximately S\$304,000 in aggregate.
- (e) The Board has considered Provision 8.1 of the Code, and after careful deliberation, has decided that as remuneration matters are confidential and commercially sensitive and full disclosure would be prejudicial to the Company's interest given the highly competitive environment. The Board was of the opinion that it is in the best interests of the Group not to disclose the exact remuneration of each individual Director, the CEO and the top two



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key management personnel (who are not Directors or the CEO) in the Company's FY2020 Annual Report. The Board is of the opinion that the information disclosed in the Company's FY2020 Annual Report strikes an appropriate balance between detailed disclosure and confidentiality.

### The Company is transparent on its relationships between remuneration, performance and value creation

As disclosed in pages 35 and 36 of the Company's FY2020 Annual Report:

- (a) Short-term qualitative performance conditions such as leadership, people development, commitment, teamwork and current market and industry practices and long-term qualitative performance conditions such as current market and industry practices were chosen to assess executive Directors and key management personnel. The Group believes that assessing executive Directors and key management personnel on such qualitative performance conditions will allow the Group to remain competitive and will encourage executive Directors and key management personnel to work in alignment with the goals of all stakeholders.
- (b) The Directors' fees paid to the independent non-executive Directors and the non-executive Director were in accordance with their credentials, qualifications, experience and contributions. Other factors such as responsibilities, effort and time spent for serving on the Board and board committees of the Company also form part of the consideration in the determination of the Directors' fees.
- (c) The Company ensures that the remuneration of key management personnel is consistent and comparable with market practice by periodically reviewing and considering such remuneration components against those of comparable companies.

### Conclusion

For the reasons above, the Board is of the view that:

- (a) the disclosures in the Company's FY2020 Annual Report are consistent with the intent of Principal 8 of the Code; and
- (b) the practices adopted by the Company as disclosed in the Company's FY2020 Annual Report are consistent with the intent of Principal 8 of the Code.

### **By Order of the Board**

Poh Kok Hong  
Chief Executive Officer  
27 April 2021