



BETTER SOLUTIONS TO WATER & WASTE

DARCO WATER TECHNOLOGIES LIMITED

(Company Registration No. 200106732C)

(Incorporated in the Republic of Singapore)

**RESPONSES TO SINGAPORE EXCHANGE SECURITIES TRADING LIMITED'S QUERIES
ON THE COMPANY'S ANNOUNCEMENT – ANNUAL REPORT FOR THE FINANCIAL
YEAR ENDED 31 DECEMBER 2023**

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 period ended 31 December 2023 (“**FY2023**”) (“**FY2023 AR**”) released on the SGXNET on 9 April 2024. The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 18 April 2024 (each, an “**SGX Query**”) as follows:

SGX Query 1:

Listing Rule 704(6) provides that an issuer must immediately announce if it has previously announced its preliminary full-year results, any material adjustments to its preliminary full-year results made subsequently by auditors. Please provide explanations for the following material variances:

- (i) Net cash used in operating activities of S\$7,137,000 in the unaudited financial statements as compared to net cash used in operating activities of S\$7,671,000 in the FY2023 Annual Report; and
- (ii) Net cash from financing activities of S\$1,808,000 in the unaudited financial statements as compared to net cash from financing activities of S\$2,260,000.

Please also clarify whether and how has Listing Rule 704(6) been complied with.

Company’s response to SGX Query 1:

- (i) Variance in Net cash used in operating activities are mainly due to:
 - Changes in the proceeds from other payable, reclassified to financing activities;
 - Changes in the exchange difference.
- (ii) Variance in Net cash from financing activities are mainly due to:
 - Changes in the proceeds from other payable, reclassified from operating activities;
 - Changes in the repayment of borrowings - bank overdraft, reclassified to net decrease in cash and cash equivalents.

In compliance with Listing Rule 704(6), the Company, having assessed the above changes, was of the view that the changes did not materially affect the profit for the financial year, net assets and cash position of the Company. The Company did not release an announcement as these changes were not regarded as 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 the aggregate total remuneration paid to key management personnel. No explanations were provided for in the Company's FY2023 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 on pages 32 and 33 of the FY2023 AR:

- a) 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 and key management personnel.
- b) No Director is involved in deciding his or her own remuneration. In particular, each Director shall abstain from voting on any resolution and making any recommendation and/or participating in any deliberation in respect of their 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 on pages 34 to 37 of the Company's FY2023 AR:

- 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 each of the Independent Non-Executive Directors for FY2023 were specifically disclosed.
- c) There is a table setting out the names and breakdown of remuneration of the top two (2) key management personnel (who are not Directors or the CEO of the Company) in bands of S\$250,000.

The Company wishes to clarify that only two (2) of its executives (who are not Directors or the CEO) are considered key management personnel. The Company therefore only disclosed the names and breakdown of remuneration of these two (2) executives, and will include this explanation in its future annual reports, if applicable.

- d) The aggregate total remuneration paid to these two (2) key management personnel (who are not Directors or the CEO of the Company) for FY2023 amounted to approximately S\$235,000.
- 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 (2) key management personnel (who are not Directors or the CEO) in the Company's FY2023 AR. The Board is of the opinion that the information disclosed in the Company's FY2023 AR strikes an appropriate balance between detailed disclosure and confidentiality.

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

As disclosed on pages 35 and 36 of the Company's FY2023 AR:

- 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 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 current remuneration level of the Board and key executives is appropriate and in line with the market;
- b) the disclosures in the Company's FY2023 AR are consistent with the intent of Principle 8 of the Code; and
- c) the practices adopted by the Company as disclosed in the Company's FY2023 AR are consistent with the intent of Principle 8 of the Code.

By Order of the Board

Zhang Zhenpeng
Executive Director and Chief Executive Officer
22 April 2024