

**DUTECH HOLDINGS LIMITED**

(Incorporated in the Republic of Singapore)

Registration No. 200616359C

RESPONSE TO QUERIES RAISED BY SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

The Board of Directors (the “**Board**”) of Dutech Holdings Limited (the “**Company**”) refers to the Company’s Annual Report for the financial year ended 31 December 2020 (“**AR 2020**”) released on 8 April 2021 and wishes to respond to the queries raised by Singapore Exchange Securities Trading Limited (“**SGX-ST**”) as follows:

SGX-ST’s Query 1:

Listing Rule 907 requires issuers to disclose the aggregate value of interested person transactions entered into during the financial year under review in its report. The name of the interested person, nature of relationship and the corresponding aggregate value of the interested person transaction entered into with the same interested person must be presented in the format provided in Listing Rule 907.

We note that the Company did not disclose the requisite information in the prescribed presentation format. Please do so accordingly.

The Company’s response:

The aggregate value of interested person transactions entered into during the year that falls under Chapter 9 of the Listing Manual of the SGX-ST is set out in the prescribed format below:

Name of interested person	Nature of relationship	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to <u>Rule 920</u>)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to <u>Rule 920</u> (excluding transactions less than \$100,000)
Nantong Mayway Products Corp. - rental for land and buildings	(Note A)	RMB4.2 million	NIL

Duwei Electromechanical (Tongzhou) Co., Ltd - purchase of raw materials	(Note B)	RMB3.7 million	NIL
--	----------	----------------	-----

(Note A) Nantong Mayway Products Corp. is an associate of Dr Johnny Liu (Director and controlling shareholder of the Company) and Mr Liu Bin (Director and shareholder of the Company).

(Note B) Duwei Electromechanical (Tongzhou) Co., Ltd is an associate of Dr Johnny Liu (Director and controlling shareholder of the Company).

The above interested person transactions were carried out on normal commercial terms and were not prejudicial to the interests of the Company and its minority shareholders.

SGX-ST's Query 2:

Listing Rule 704 provides, inter alia, that an issuer must announce any material adjustments to its preliminary full-year results made subsequently by auditors.

We note that there are material variances in the values for: (a) total comprehensive income for the year; and (b) net cash from / (used in) activities, in the Company's full-year financial statements announced on 1 March 2021 and the Annual Report. Please explain the reason for the material variances and why the Company has not made an announcement in this regard.

The Company's response:

(a) The variance in total comprehensive income was mainly due to translation differences on monetary items that form part of a reporting entity's net investment in foreign operation and an adjustment has been put through from profit or loss to other comprehensive income in accordance to SFRS(I) 1-21. The variance is only 0.5% of net assets, therefore no special announcement was made by the Company.

(b)

Consolidated Statement of Cash Flows for the financial year ended 31 December 2020				
	Group			
RMB'000	Audited	Unaudited	Variance	
				%
Net cash from operating activities	151,928	155,279	(3,351)	-2.2%
Net cash from/(used in) investing activities	1,876	2,042	(166)	-8.1%
Net cash used in financing activities	(49,279)	(51,743)	2,464	-4.8%
Net increase in cash and cash equivalents	104,525	105,578	(1,053)	-1.0%

The variance between net cash from operating activities in FY2020 as disclosed in the Company's full-year financial statements announced on 1 March 2021 and the Annual Report was mainly due to reclassification of payment for pension liability in our UK operations from financing activities to operating activities.

The variance between net cash used in investing activities in FY2020 as disclosed in the Company's full-year financial statements announced on 1 March 2021 and the Annual Report was mainly due to proceeds from disposal of property, plant and equipment has been offset with other receivables under operating activities.

The variance between net cash from financing activities in FY2020 as disclosed in the Company's full-year financial statements announced on 1 March 2021 and the Annual Report was mainly due to reclassification of payment for pension liability in our UK operations from financing activities to operating activities.

The total variance between "Net increase in cash and cash equivalents" is 1.0% and does not have significant impact on the Group's cash and bank balance of RMB538,065,000 as at 31 December 2020, therefore no special announcement was made by the Company.

SGX-ST's Query 3:

We note that the Company stated on page 23 of the Annual report that “the ARC is satisfied that the internal auditors are staffed by qualified and experienced personnel”.

Listing Rule 1207(10C) requires the Audit Committee's comments on whether the internal audit function is independent, effective and adequately resourced. Please comply with the said Listing Rule.

In addition, please provide information on whether the head of the internal audit function team has the relevant experience and qualifications. Where the internal audit function is outsourced, please provide information on the relevant experience of accounting firm and the engagement team.

The Company's response:

The Company has outsourced internal audits of its Asian operations to BDO LLP, which is an established international auditing firm. The BDO LLP Engagement Partner has more than 20 years of audit and advisory experience and is a Chartered Accountant (Singapore), Certified Internal Auditor and Certified Information System Auditor. BDO LLP performs outsourced internal audits of several listed companies, government bodies and regulated entities. Members of the internal audit team also have relevant academic qualifications, professional certifications and internal audit experience.

The Company also has outsourced internal audits of its European operations to BDO AG Wirtschaftsprüfungsgesellschaft (“**BDO AG**”), which is one of the leading companies for auditing and audit-related services, tax and business law consulting, and advisory in Germany. The BDO AG was headed by the Engagement Partner in the Forensic, Risk & Compliance department, who is a Certified Internal Auditor (CIA), a certified auditor for Internal Audit Systems DIIR and a member of the Deutsche Institut für Interne Revision e.V. (German Institute for Internal Auditing). Further, assisted by Engagement Managers who have more than 10 years of experience in risk management and risk-based internal audit services.

BDO conducts their internal audits based on the BDO Global Internal Audit Methodology which is consistent with the International Professional Practices Framework established by the Institute of Internal auditors.

The Audit Committee is hence satisfied that the outsourced internal audit function is adequately staffed by suitably qualified and experienced professionals based on the internal audits conducted for FY2020.

The ARC reviewed the effectiveness and adequacy of the outsourced IA function through its annual assessment. Based on the assessment, the ARC is satisfied with the quality and effectiveness of the outsourced IA function and that the outsourced IA function is currently adequately resourced and has appropriate independent standing within the Group to perform its functions effectively.

SGX-ST's Query 4:

Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the "Code"), 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 2.2 of the Code as independent directors do not make up a majority of the Board where your Chairman is not independent, and there were no explanations were provided for in your FY2020 annual report on how it is consistent with the intent of Principle 2 of the Code. Please clarify how the practices the Company had adopted are consistent with the intent of Principle 2 of the Code, which requires the Board to have an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interest of the Company.

The Company's response:

As disclosed on page 12 of the AR 2020, the Board presently comprises seven (7) Directors, of whom two (2) are Executive Directors, two (2) of whom are Non-Executive Directors and the remaining three (3) are Independent Non-Executive Directors.

The Company had provided its explanation on page 12 of the AR 2020 for non-compliance with Provision 2.2 of the Code:

"Provision 2.2 of 2018 Code requires independent directors to make up a majority of the Board where the Chairman is not independent. The Company does not comply with Provision 2.2 as Independent Directors do not make up a majority of the Board and the Chairman is not independent. However, Non-Executive Directors do make up a majority of the Board. Given the size and composition of the Board and the active participation of Board members at Board meetings, the Board is of the view that there is an appropriate level of independence in its composition to enable it to make decisions in the best interests of the Company. The Board will continue to review its Board composition as it embarks on its Board renewal. The NC would continue with the search for additional independent directors with the appropriate skills, knowledge and experience to join the Board. The Board concurred with the NC's assessment and recommendation."

SGX-ST's Query 5:

Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the "Code"), 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 3.1 of the Code as the Company's Chairman and CEO position is filled by the same person, and there were no explanations were provided for in your FY2020 annual report on how it is consistent with the intent of Principle 3 of the Code. Please clarify how the practices the Company had adopted are consistent with the intent of Principle 3 of the Code, which requires a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision making.

The Company's response:

The Company had provided its explanation on page 14 of the AR 2020 for non-compliance with Provision 3.1 of the Code:

"Dr. Johnny Liu Jiayan, a controlling shareholder of the Company, assumes the roles of Executive Chairman and Chief Executive Officer ("**CEO**") of the Company. He plays a vital role in developing and expanding the business of the Group and has provided strong leadership and vision to the Group. Given the size of the Group's current business operations and nature of its activities, the Board is of the view that it is not necessary to separate the roles of the Chairman and CEO. (*Provision 3.2 of 2018 Code*) The Board is of the view that there are sufficient safeguards and checks in place to ensure that Management is accountable to the Board as a whole. All three (3) Board Committees, comprising Non-Executive Directors, are chaired by Independent Directors. (*Provision 3.1 of 2018 Code*)

In accordance with the recommendations of the 2018 Code, Ms. Tan Yee Peng has been appointed as the Lead Independent Director. The Lead Independent Director is available to shareholders where they have concerns and for which contact through the normal channels of communication with the Executive Chairman or Management are inappropriate or inadequate. (*Provision 3.3 of 2018 Code*)

In view of the above, the Directors are of the view that there are sufficient safeguards and checks in place to ensure that the process of decision making by the Board is independent and is based on collective decision making without Dr. Johnny Liu Jiayan being able to exercise considerable concentration of power or influence. (*Provision 3.1 of 2018 Code*)"

SGX-ST's Query 6:

Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the "Code"), 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 Provisions 8.1 of the Code with regards to the disclosure of remuneration (e.g. disclosure of the aggregate remuneration of the key management personnel). 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.

The Company's response:

As disclosed on page 20 of the AR 2020, the Company had disclosed the breakdown of the remuneration of each Director and the key management personnel into types of compensation in percentage terms and in bands of S\$250,000. The Company had also disclosed the remuneration of the Directors in absolute numbers on page 20 of the AR 2020. The aggregate remuneration of the key management personnel is also given on page 106 of the AR 2020 (Note 37). Accordingly, the Company is of the view that it is transparent and has complied with Provision 8.1(a) of the Code by disclosing the names, amounts and breakdown of remuneration of each individual director.

As set out on page 20 of the AR 2020, the Company is of the view that the full remuneration disclosure of its key management personnel is not in the interest of the Company, having regard to the highly competitive human resource environment and the sensitive and confidential nature of such information and the disadvantages that it might bring. The Company has therefore, adopted the approach as provided in Provision 8.1(b) to disclose remuneration of top key management personnel in bands no wider than S\$250,000 in aggregate. The Company had additionally disclosed the variable components on page 20 of the AR 2020.

The key considerations for the Remuneration Committee in considering remuneration packages, the Company's remuneration policies (also for key management personnel), level and mix of remuneration, having regard to both the Group's performance and level of contribution as well as attributing a significant and appropriate proportion of Executive Directors' and key management personnel's remuneration to performance are disclosed on page 20 of the AR 2020.

In view of the disclosures in the AR 2020 under Principles 6 and 7 on pages 18 and 19 of the AR 2020, reading together with the disclosures under Provision 8.1 of the Code, the Company is of the view that the current disclosures are consistent with the intent of Principle 8 of the Code.

On behalf of the Board

Dr Johnny Liu
Executive Chairman and CEO
21 April 2021