



SOLUTIONS TO WATER & WASTE

Darco Water Technologies Limited

(Incorporated in the Republic of Singapore)
(Company Registration Number 200106732C)

RESPONSE TO SINGAPORE EXCHANGE SECURITIES TRADING LIMITED'S QUERY ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

The Board of Directors (the "**Board**") of Darco Water Technologies Limited (the "**Company**", and together with its subsidiaries, the "**Group**") refers to the Company's Annual Report for the financial year ended 31 December 2021 released on the SGXNet on 8 April 2022. The Board would like to respond to the following query raised by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 18 April 2022 as follows:

SGX Query:

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 FY2021 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:

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 Company's annual report for the financial year ended 31 December 2021 (the "**FY2021 Annual Report**"):

- (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 FY2021 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, Mr. Kong Chee Keong, Ms. Gn Jong Yuh Gwendolyn, and Ms. Ong Joo Mien Joanna for the FY2021 were S\$42,380, S\$19,619, S\$35,583 and S\$33,586 respectively. The Directors' fees payable to the Non-Executive Director, namely, Mr. Wang Zhi was S\$6,789.
- (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. As the Company only considers two (2) 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 (2) executives.
- (d) The aggregate total remuneration paid to these two (2) key management personnel (who are not Directors or the CEO of the Company) for FY2021 amounted to approximately S\$231,860.
- (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 Executive Director, the CEO and the top two (2) key management personnel (who are not Directors or the CEO) in the Company's FY2021 Annual Report. The Board is of the opinion that the information disclosed in the Company's FY2021 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 on pages 34, 36 and 37 of the Company's FY2021 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.
- (d) The Company had engaged Mercer (Singapore) Pte. Ltd. as remuneration consultant to provide professional advice on Board and executive remuneration.

Conclusion

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

- (a) the current remuneration level and mix of the Board and key executives are fair;
- (b) the disclosures in the Company's FY2021 Annual Report 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 FY2021 Annual Report are consistent with the intent of Principle 8 of the Code.

By Order of the Board

Kong Chee Keong
Executive Director and Chief Executive Officer

20 April 2022