



## DUTECH HOLDINGS LIMITED

(Incorporated in the Republic of Singapore)

Registration No. 200616359C

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### RESPONSE TO QUERIES RAISED BY SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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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 2019 released on 11 May 2020 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 1207(10C) requires the Audit Committee’s comments on whether the internal audit function is independent, effective and adequately resourced. Please provide information on the relevant experience of accounting firm and the engagement team.

#### **The Company’s response:**

Audit & Risk Committee meets separately with internal auditors, and also reviewed internal audit scope, resources, performance and results of works. The internal audits have been taken by two audit firms in 2019 that is independent, effective and adequately resourced.

#### **BDO LLP**

Established in 1972 and a member firm of BDO International since 1979, it offers a full range of services including audit, business restructuring, corporate advisory, cyber security, tax advisory, secretarial and outsource accounting, management consultancy and risk advisory.

	Partner	Engagement manager
BDO LLP (“BDO”), internal audit function on China operations	<b>Willy Leow</b> <ul style="list-style-type: none"><li>• Bachelor of Accountancy (Honours) and MBA in Management of Information Technology (Honours) from Nanyang Technological University;</li><li>• Chartered Accountant (Singapore), Certified Internal Auditor, Certified Information System Auditor, Practising Management Consultant and Certification in Risk Management Assurance;</li><li>• More than 17 years of internal audit experience;</li></ul>	<b>Ivan Ng</b> <ul style="list-style-type: none"><li>• Bachelor of Management with Japanese Studies (Honours) from University of London (UOL) and Master in Analysis, Design and Management of Information System from London School of Economics and Political Science, UOL;</li><li>• More than 10 years of internal audit experience serving clients listed on the Bursa Malaysia;</li><li>• Leading engagements in BDO in relation to Enterprise Risk Management, IPO internal</li></ul>

	<ul style="list-style-type: none"> <li>Head of Risk Advisory Services in BDO Singapore, managing a portfolio of outsourced internal audits of over 50 listed companies and government bodies.</li> </ul>	controls review and Business process documentations.
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**Ebner Stolz Mönning Bachem GmbH & Co. KG**

One of the top ten and one of the largest independent auditing and consulting firms in Germany. In 2018, its more than 1,500 partners and employees generated sales of EUR 213 million. At its 15 locations in all major German cities and business centers, it is close to its clients with its range of services in auditing, tax consulting, legal advice and management consulting.

	Partner	Engagement manager
Ebner Stolz Mönning Bachem GmbH & Co. KG, internal audit function on Germany and UK operations	<p><b>Christian Fuchs</b></p> <ul style="list-style-type: none"> <li>German Public Accountant, Certified Tax Advisor and German accountant and auditor;</li> <li>Member of the Audit Committee of NEXIA International;</li> <li>More than 15 years of professional experience in auditing and corporate finance,</li> </ul>	<p><b>Markus Münstermann</b></p> <ul style="list-style-type: none"> <li>Master diploma from Business Administration University of Hohenheim.</li> <li>German CPA and has specific know how on internal controls and IFRS.</li> <li>More than 15 years of job experience in various international projects.</li> </ul>

**SGX-ST's Query 2:**

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 2.4 of the Code as you have not disclosed a board diversity policy and progress made towards implementing the board diversity policy, including objectives, and there were no explanations were provided for in your FY2019 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 13 of the Company's annual report for the financial year ended 31 December 2019 ("**Annual Report**"), the Nominating Committee ("**NC**") of the Company is responsible for reviewing the size and composition of the board of directors ("**Board**") and the Company's board committees, namely, the Audit & Risk Committee ("**ARC**"), NC and

Remuneration Committee (“**RC**”) (collectively, the “**Board Committees**”). The NC conducts such reviews on an annual basis.

The Company recognises the benefits of diversity on the Board, in particular, diversity in Directors who have the relevant skills and knowledge, expertise and experiences as an essential element in achieving its strategic objectives and having a competitive advantage. For these reasons, the Company had disclosed on page 13 of the Annual Report that the NC had considered and is of the view that the current Board and Board Committees’ compositions have the relevant skills and knowledge, expertise and experiences as a group for discharging the Board’s duties.

As at the date of the Annual Report, the Company has in place a Board with diverse expertise. As described on pages 6 and 7 of the Annual Report, the Directors’ profile is diverse and includes accounting, economics, finance, business management and/or engineering expertise, with successful careers in professional firms, multi-national or listed companies.

The Board has no specific policy on gender, age and ethnicity for candidates to be appointed to the Board. In addition to the evaluation of skills, knowledge, expertise and experience, the Board will also assess and evaluate the suitability of candidates based on the candidates’ competency, character, time commitment, integrity and experience in meeting the needs of the Company. The NC will, however, take into consideration the gender, age and ethnicity of the candidates as part of its objective assessment of their potential contribution to the Board in its recruitment process, as set out on page 14 of the Annual Report. As disclosed also on page 13 of the Annual Report, the Company has met the recommendation of the Council for Board Diversity for listed companies to have 25% female representation on their boards by 2025.

#### *Diversity of thought and background in its composition*

In view of the above (and Annual Report disclosures), the Board is therefore of the view that the compositions of the Board and that of the Board Committees, are appropriate and comprises Directors who as a group, have an appropriate balance and mix (as well as breadth and depth) of skills, knowledge and experience, and diversity of thought, so as to foster constructive and robust debate. Hence, while there is no formal board diversity policy, the Board believes that its current composition has an appropriate diversity of thought and background to enable it to make decisions in the best interests of the Company, consistent with the intent of Principle 2 of the Code.

#### *Appropriate level of independence*

The Board recognises (and as disclosed on page 12 of the Annual Report) that the Company does not comply with the requirement (under Provision 2.2 of the Code) which requires independent directors to make up a majority of the Board where the Chairman is not independent. However, the Board takes the view that it is consistent with the intent of Principle 2 of the Code as the Board currently has 5 non-executive directors (of which 3 are independent) out of a total of 7 directors and accordingly, 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.

**SGX-ST's Query 3:**

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. 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 18 of the Annual Report, the Company has 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 (see page 18 of the Annual Report). Accordingly, the Company is of the view that it is transparent and has complied with Provision 8.1(a) by disclosing the names, amounts and breakdown of remuneration of each individual director.

As set out in page 19 of the Annual Report, the Company is of the view that the full remuneration disclosure of its key management personnel is not in the interests of the Company having regard to the highly competitive human resource environment and the sensitive and confidential nature of such information and disadvantages that 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 18 of the Annual Report.

The key considerations for the RC in considering remuneration packages, the Company's remuneration policies (also for key executives), 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 pages 16 to 18 of the Annual Report.

In view of the disclosures in the Annual Report under Principles 6 and 7 (pages 16 to 19 of the Annual Report), read together with the disclosures under Provision 8.1, the Company is of the view that the current disclosures are consistent with the intent of Principle 8 of the Code.

**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 Provisions 8.2 of the Code with regards to the disclosure of remuneration (and in particular, whether the disclosures pertaining to employees who are substantial shareholders), and there were no explanations were provided for in your FY2019 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.

***The Company's response:***

As disclosed on page 19 of the Annual Report, except for Dr. Johnny Liu and Mr. Liu Bin, there are no employees within the Group who are immediate family members of a Director or the CEO, or a substantial shareholder of the Company, whose remuneration exceeds S\$100,000 during the financial year ended 31 December 2019.

The remuneration breakdown of Dr. Johnny Liu and Mr. Liu Bin has been disclosed on page 18 of the Annual Report. The Company had also disclosed the relationship between Dr. Johnny Liu and Mr. Liu Bin at page 6 of the Annual Report, which provides that Mr. Liu is the brother of Dr. Johnny Liu, Executive Chairman and Chief Executive Officer of the Company and a controlling shareholder of the Company.

The Company is of the view that its current disclosures is consistent with the intent of Principle 8, as shareholders of the Company have been given information on Dr. Johnny Liu and Mr. Liu Bin's remuneration in absolute numbers as well as breakdown information on the level and mix of remuneration in percentage terms. As stated above, the Company has also given detailed disclosure on its key considerations in determining remuneration packages as set out in the Annual Report under Principles 6 and 7 (set out on pages 16 to 19 of the Annual Report).

The Company therefore believes that, taken as a whole, the disclosures provided are meaningful, sufficiently transparent and consistent with the intent of Principle 8 of the Code. Save as disclosed above, the Company confirms that there are no employees of the Group who are substantial shareholders, or are immediate family members of a Director, the CEO or a substantial shareholder of the Company, and whose remuneration exceeded S\$100,000 during the financial year ended 31 December 2019.

***SGX-ST's Query 5:***

With regard to page 12 of the annual report, please explain: (i) if the independence of the directors who have served on the board beyond nine years from the date of his first appointment has been subject to rigorous review; and (ii) why such directors should be considered independent.

***The Company's response:***

(i)The independence of directors who have served on the Board beyond nine years from the date of their first appointment, being Mr Graham MacDonald Bell ("Mr Bell") and Mr Chen Zhaohui ("Mr Chen"), has been subject to rigorous review.

As set out on page 12 of the Annual Report, the independence of each Director is reviewed annually by both the NC and the Board. In this regard, the NC assessed and reviewed the independence of Mr Bell and Mr Chen based on the adoption of the Code's definition of what constitutes an "independent director", which is one who is independent in conduct, character and judgement, and has no relationship with the Company, its related corporations, its substantial shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement in the best interests of the Company. The Board and NC's assessment was also based on observations from both Mr Bell and Mr Chen's contribution and objectivity during meetings. Mr Bell and Mr Chen continue to express their views, debate issues and challenge management and the Company had benefited from their years of experience.

Additionally, each Independent Director, including Mr Bell and Mr Chen, are required to complete a checklist annually to confirm their independence based on the guidelines set out in the Code. Mr Bell and Mr Chen have also provided a confirmation to the Company that they are not related to the other Directors and 5% shareholders of the Company as part of the NC's and Board's annual review of the independence of each Director.

Through the rigorous reviews undertaken, the Board and the NC have recognised the independence of Mr Bell and Mr Chen notwithstanding that they have served the Board for more than nine years.

(ii)As stated above, the NC does not rely solely on the length of service of a Director to assess their independence and in fact adopts the Code's definition in its assessment.

As stated on page 12 of the Annual Report, Mr Bell and Mr Chen do not fall under the criteria set out in Listing Rule 210(5)(d) that provide the circumstances under which a director is not considered independent. Neither Mr Bell nor Mr Chen are currently employed or have been employed by the Company or any of its related corporations in the current or any of the past three financial years, and also do not have immediate family members who are currently employed or have been employed by the Company or any of its related corporations in the current or any of the past three financial years, and whose remuneration is or was determined by the RC of the Company.

In view of the reasons set out in paragraph (i) above and as disclosed on pages 12 and 13 of the Annual Report, the Board concurs with the assessment of the NC that Mr Bell and Mr Chen should be considered independent.

#### ***SGX-ST's Query 6:***

Please explain the material discrepancies between the values for net cash used in investing activities and net cash used in financing activities found on page 38 of the Annual Report and the values disclosed in the full year unaudited financial statements issued on 27 February 2020. Please also explain why the Company has not disclosed the material discrepancies via an SGXNET announcement under Rule 704(6)

#### ***The Company's response:***

The discrepancies are mainly due to the adjustments as follows:

1. Interest received amounting to RMB1.6 million (investing activities) is reclassified from interest paid (financing activities).
2. "Proceeds from disposal of property, plant and equipment" (investing activities) and "purchase of property, plant and equipment" (investing activities) are adjusted by RMB4.5 million and RMB1.7 million respectively due to recalculation of property, plant and equipment movement. In addition, "proceeds from borrowings" (financing activities) are adjusted by RMB6.9 million as the lease liabilities recognised upon the adoption of SFRS(I) 16 Leases is now excluded from the cash flows.
3. RMB1.5 million previously classified as working capital movement under operating activities is now adjusted against dividend paid under financing activities.

As above details, it's not considered as material discrepancies being announced via SGXNET.

On behalf of the Board

Dr Johnny Liu  
Executive Chairman and CEO  
21 May 2020