



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: Darco Water Technologies Limited

Security: Darco Water Technologies Limited

Meeting details:

Date: 25 April 2019

Time: 10.00 a.m.

Venue: Six Battery Road #10-01 Singapore 049909

Company Description

Darco Water Technologies Limited is a Singapore-based investment holding company. The Company is engaged in designing, building, operating and maintaining of water management processes that employ the membrane, ion exchange and thermal technologies. The Company operates through three segments: Engineered Environmental Systems (EE Systems), Water Management Services (WM Services) and Trading. The EE Systems segment designs, fabricates, assembles, installs and commissions engineered water systems for industrial applications. The WM Services segment services and maintains product water and wastewater systems. The Trading segment is engaged in trading and supplying chemicals, electrical controls and related instruments used in water treatment systems. The Company serves various industries, including electronics, semiconductor, textile, food and beverage, printed circuit board, solar-energy and pharmaceuticals, and takes on municipal water and waste water treatment projects.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BLR)

1. On 31 October 2018, the company announced that it has issued a Letter of Intent to purchase Con Dao Green Energy Co. Ltd., the Build-Own-Operate (“BOO”) developer of Con Dao Solar Power Park in Vietnam which has a design capacity of 5 megawatt peak.

The investment cost of the solar farm is approximately US\$7.2 million.

This rides on Vietnam’s push to promote solar power, which will be the main renewable energy source in the country, with total output of solar power targeted by the government to hit 3.3% and 20% by 2030 and 2050 respectively. The Vietnamese government has yet to finalise its feed in tariff rate.

- (i) **Would the board/management help shareholders understand the experience and track record of the group in setting up and running a solar farm?**
- (ii) **Is the investment cost of the farm inclusive of the land/land use rights, solar panels and all the supporting infrastructure?**
- (iii) **With the feed in tariff rate yet to be finalised, is the group taking a big risk that the investment returns might be lower than projected?**
- (iv) **Does the investment into the solar farms alter the risk profile of the group?**

2. While the group registered a higher revenue of \$83.8 million for FY2018, it recorded a net loss of \$1.8 million mainly due to “higher administrative expenses, finances costs, marketing and distribution expenses coupled with tough business environment” (page 5). Would the board/management provide shareholders with better clarity on the following operational and financial matters? Specifically:

- (i) **Profitability:** The group’s gross profit margin dropped from 24.1% in FY2017 to 16.6% in FY2018 “due to the stiff competition in the China market”. The group lowered its profit margin when tendering for larger projects in China, leading to the erosion in gross profit margin. **Can management elaborate further on the business model for its PRC operations? What is the value proposition? What are the pro-active measures to differentiate it from the other competitors so that there is less pressure on prices/margin?**
- (ii) **District Pneumatic Waste Conveyance System (“PWCS”):** Would management update on the progress of its \$23.5 million contract for the retrofitting of a PWCS in the Teck Ghee Estate under the HDB Greenprint Program? What are the milestones achieved? Is the project on target for completion in 2020 and on budget?
- (iii) **Trading:** As seen in Note 23 (page 137 – Segment information), trading revenue increased from \$9.35 million to \$11.73 million for FY2018. Segment profit jumped from \$1.45 million to \$4.38 million. **What are the reasons for the improved profitability in the trading segment? How sustainable is the increase?**

- (iv) **Gaoyi Domestic Waste Water Treatment Project:** The group had signed a non-binding Letter of Intent with Mr. Wang Zhi in respect of a proposed investment in a Build-Operate-Transfer (“BOT”) Gaoyi Domestic Waste Water Treatment Project which has a concession period of 30 years. **Has the upgrade and refurbishment work of the waste water treatment plant been completed?** The target completion date was December 2018. **Has management carried out its due diligence? When will a decision on the investment be made? Does the group have the financial resources to make the investment?**

3. In the Corporate Governance report, the company disclosed the remuneration of the top key management personnel who are not directors or the CEO of the company.

The remuneration of the top key management personnel (who are not Directors or the CEO of the Company) whose remuneration fell within the following ranges for FY2018 are as follows:

Remuneration Bands & Name of Key Management Personnel	Salaries, including CPF	Variable Bonus	Others	Total
Between \$250,000 to \$500,000				
David Heng	31%	45%	24%	100%
Below \$250,000				
Thye Kim Fah	95%	5%	–	100%
Teh Chun Sem	86%	14%	–	100%

(Source: Company annual report)

On page 11, the company listed Mr. Teh Chun Sem, Financial Controller, and Mr. Thye Kim Fah, General Manager of Darco Water Systems Sdn. Bhd (“DWS”), as the two key management personnel.

- (i) **Would the board help shareholders understand the roles and responsibilities of Mr. David Heng?** Mr. David Heng is not listed as a key management personnel but he received the highest remuneration of between \$250,000 to \$500,000.
- (ii) **Should Mr David Heng be considered a key management personnel as well? If so, please include the biography and his roles and responsibilities in the annual report.**
- (iii) **Please also help shareholders understand the current leadership bench depth across different functions, such as research & development, operations, business development, sales.**



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A copy of the questions for the Annual Report for the financial year ended 31 December 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Darco%20Water%20Technologies%20Ltd&cid=6561,4605>

The company's response could be found here: -----