SANLI ENVIRONMENTAL LIMITED
Company Registration No.: 201705316M

COMPANY'S RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RELATION TO THE ANNUAL REPORT FOR THE FINACIAL YEAR ENDED 31 MARCH 2021 ("FY2021")

The Board of Directors (the "Board") of Sanli Environmental Limited (the "Company", together with its subsidiaries, the "Group") refers to the notice of annual general meeting ("AGM") released by the Company on 14 September 2021 in relation to the Company's AGM to be held by way of live audio-visual webcast and live audio-only stream on Wednesday, 29 September 2021 at 10.00 a.m. (Singapore Time).

The Board would like to provide responses to questions from the Securities Investors Association (Singapore) ("SIAS") ahead of the AGM as follows. The Company did not receive any questions from shareholders as at the deadline stated in the notice of AGM.

<u>Question 1</u>

Would the Board/management provide shareholders with greater clarity on the following operational and financial matters? Specifically:

(i) Johor River Waterworks ("JRWW"): As announced by the company on 15 July 2021, the group was awarded a $72.67 million contract from the Public Utilities Board ("PUB") for the construction and commissioning of new disinfection systems at Johor River Waterworks, located at Kota Tinggi, Johor, Malaysia. The group won the PUB tender with the lowest bid, outbidding the next lower bidder by $210,000. What is the length of the project, i.e. when does the group need to commission and hand over the new disinfection systems? Can management help shareholders understand if it has extensive experience of working in Johor, Malaysia, especially given the complications arising from the COVID-19 pandemic? Does the group currently have the requisite manpower and technical expertise in-house to successfully execute on the project? What are the risks that the logistical challenges arising from COVID-19 measures will lead to significant project delays and cost overrun?

(ii) Operations and Maintenance ("O&M"): For the O&M segment, revenue increased significantly by 33.7% to $17.6 million as the group secured and completed higher value O&M contracts in FY2021. What are the major O&M opportunities in the next 18-24 months? Does management have an estimate of the size of the market and the group's market share? What is the competitive advantage of the group in O&M?

(iii) Gross margins: It is noted that the group recorded lower gross profit margin due to lower revenues and higher labour related costs. The EPC and O&M segments recorded gross margins of 4.3% (FY2020: 8.2%) and 14.5% (FY2020: 22.9%) respectively. Since FY2015, the EPC and O&M segments have recorded gross margins as high as 13% (FY2018) and 30% (FY2015) respectively. How does management look to improve its gross margins, e.g., passing the higher input costs to customers and/or increasing the value-add of the projects? Has the group maintained/improved its cost competitiveness?

(iv) Manpower: On the operational side, how is the group dealing with the widely reported manpower shortages?

(v) Myanmar: Can management elaborate further on the ground sentiments in Myanmar? Is the 60%-owned Sanli Environmental (Myanmar) Company Limited self-sustaining in terms of cash flow/capital? What is the size of its team in Myanmar? What additional measures has management taken to protect its employees and assets in Myanmar? How is the group providing effective management and oversight given the military coup and the pandemic?

<u>Company's Response</u>

(i) The JRWW project started in July 2021 and is expected to be completed by October 2023. The Company is executing the project together with Sanli M&E Engineering Sdn Bhd ("Sanli Malaysia"), a wholly owned subsidiary of the Group. Incorporated in 2014, Sanli Malaysia has been involved in ongoing engineering, procurement and construction ("EPC") and operations and maintenance ("O&M") projects in Malaysia with its team of experienced management and skilled workers. The Group is taking every precaution to protect the health and safety of its staff working on site and at its office and will keep monitoring the COVID-19 situation in Malaysia. So far, the COVID-19 situation in Malaysia has not affected the recruitment of workers and the government's Movement Control Orders (MCO) have not significantly impacted the delivery of the JRWW project.

(ii) There is no public information available on opportunities in the next 18-24 months or the size of the O&M market in Singapore or the region, to ascertain the Group's market share. The Group is cautiously optimistic that the outlook for its O&M segment will remain positive, and confident that we are equipped to secure new O&M projects given that we have a longstanding track record, qualified management team and skilled workers.

(iii) As disclosed in the Financial Review section of the Company's FY2021 annual report, the Group's gross margins are affected by factors such as increased competition and increase in labour-related costs due to worker restrictions. In order to improve gross margins, the Group will continue to tender for higher value-added projects that rely on its strong engineering track record and practice stringent cost management to improve the gross margin of the Group.

(iv) On the issue of manpower, the Group mainly utilises its existing workforce and only engages contract workers to supplement, as and when necessary. The Group does not plan to rely heavily on using contract workers as it adds on to labour costs significantly.

(v) Sanli Environmental (Myanmar) Company Limited ("Sanli Myanmar") is cashflow positive and profitable for FY2021. It has a staff strength of 102 persons. Projects in Myanmar have resumed as the number of COVID-19 cases in the country has steadily declined and the level of protests to military rule subsides. All staff have returned to the office with a close monitoring of their health and the adoption of hygiene and safety procedures and practices. Sanli Myanmar is an asset-light company so its staff are of the Group's primary concern, with the Group management having daily communications with the management of Sanli Myanmar for on-the-ground updates.

Question 2

As disclosed in the Company's announcement (dated 15 July 2021) relating to the award of the $72.67 million PUB contract, the win is expected to have a positive impact on the net tangible assets and earnings per share of the group for the financial year ending 31 March 2022, barring any unforeseen circumstances.

The tender closed on 25 March 2021 and the date of the award was 12 July 2021, as noted in GeBIZ.

(i) Can the board clarify if it had announced the group's participation in the tender, prior to the announcement of the award?

The Company conducted its share buy-back from 5 May 2021 to 23 June 2021, buying back a total of 2,225,700 shares. The purchase price was as low as 6 cents per share and as high as 8.4 cents per share.

(ii) What were the deliberations by the board prior to conducting the share buy-backs?

(iii) What advice did the sponsor give to the board regarding the timing of the share buy-backs?

(iv) Did the Board consider the timing of the share buy-backs and that it had participated in a tender which, if awarded, would have a positive impact on the group's earnings and financial position (as announced on 15 July 2021)?

Company's Response

(i) Participating in tenders is part and parcel of the Group's normal course of business to secure projects that contributes to the Group's revenue. As a practice the Group does not announce every tender that it participates in due to the uncertainty of the tender outcome and quantum awarded which is only confirmed when the Group receives the letter of award from the vendor. Upon receipt of the letter of award, the Group will assess its materiality and the disclosure of the required announcements.

(ii) The Company had received the approval of the share buyback mandate from shareholders in the annual general meeting held on 25 September 2020. With regards to the recent share buyback from 5 May 2021 to 23 June 2021, the Company executed the share buyback in accordance with the share buyback mandate with the following rationale:

1) The Management was of the view that Company's share was undervalued at the time of share buyback, providing the opportunity for the Company to increase the shareholders' value by improving, inter alia, the return on equity of the Group; and

2) The treasury shares arising from the share buyback may be used for future employee share option scheme or staff performance share plans.

The above is in line with the Company's share buyback policy which takes into account the relevant listing rule requirements, regulatory guidance and internal assessment of its resources to fund the share buyback.

(iii) The Sponsor has provided guidance to the Company on the relevant listing rules and regulatory guidelines in relation to share buyback activities. The Sponsor has also advised the Board to observe a blackout period whereby no share buy-back is to be conducted one-month prior to the half-year and full-year financial results or when the Company is aware of any trade/price-sensitive information.

(iv) The Company does not undertake any purchase of its own ordinary shares pursuant to the Share Buyback Mandate at any time after a trade/price-sensitive development has occurred or has been the subject of a consideration and/or a decision of the Board until such trade/price-sensitive information has been publicly announced. As a practice the Group does not announce every tender that it participates in because there is no certainty on the tender outcome.

Question 3

In his message to shareholders, the chairman acknowledged that the group is going through a leadership transition with the resignation of Mr Chua Teck Huat, and the redesignation of Mr Kew Boon Kee, as the chief executive officer of the company, as announced on 2 August 2021.

Mr Chua Teck Huat was appointed as the CEO on 1 May 2020. He was first appointed as the Deputy CEO in November 2019 and will cease his employment with the company after approximately two years. Mr Kew Boon Kee will be re-designated to CEO and executive director with effect from 26 October 2021.

In addition, the other cessations of the group are:

- Chief financial officer with effect from 28 December 2020 "to pursue other career opportunities"; first appointed on 1 September 2016
- (Retirement of) independent director with effect from 25 September 2020; first appointed on 11 May 2017
- Executive director with effect from 31 January 2019 "to pursue other personal interests and career opportunities"

(i) Can the board help shareholders understand if there is sufficient continuity and stability on the board and in the senior management team to execute on the group's growth plans?

(ii) In addition, would the board benefit from having independent director(s) with professional experience in engineering, environmental services and/or operations?

Company's Response

(i) The Board consists of the three (3) co-founders - Mr Kew Boon Kee, Mr Lee Tien Chiat and Mr Sim Hock Heng, who are also its executive directors and involved in daily operations of the Company. With the cessation of Mr Chua Teck Huat as CEO of the Company, Mr Kew was redesignated as CEO and executive director with effect from 26 October 2021. Mr Kew, together with the management team and support of the executive directors, will ensure that there is stability and continuity in the execution of the Group's growth plans.

That being said, leadership renewal and succession planning are a long-term priority for the Company. The Board will continue to identify and bring in key talent that can help enhance the management composition. Good leadership is critical to build on the steady transformational momentum of Sanli into a leading environmental solutions company that leverages on its investments in people and technology to drive innovation.

(ii) Subsequent to Mr Chua Teck Huat's cessation as executive director and CEO of the Company, the Company will have a Board comprising six (6) directors and be able to benefit from the expertise and experience of all its directors, while recognising the important role that independent directors play in the Group's corporate governance. Currently, based on the Group's strategy and business plans, the Board does not see any immediate need to bring on additional independent directors with professional experience in engineering, environmental services and/or operations. Nonetheless, the Nominating Committee is cognisant and performs periodic assessments on the expertise and experience of the members of the Board with the objective to achieve an effective Board composition for the oversight of the Group's operations and interest of the shareholders.

BY ORDER OF THE BOARD
Sanli Environmental Limited

Mr Ng Lip Chi, Lawrence
Non-Executive Chairman and Independent Director
28 September 2021

This announcement has been reviewed by the Company's sponsor ("Sponsor"), SAC Capital Private Limited. This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made, or reports contained in this announcement. The contact person for the Sponsor is Mr David Yeong (Tel: (65) 6232 3210) at 1 Robinson Road, #21-00 AIA Tower, Singapore 048542.