SANLI ENVIRONMENTAL LIMITED
Company Registration No.: 201705316M

RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RELATION TO THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2025 ("FY2025")

The Board of Directors (the "**Board**") of Sanli Environmental Limited (the "**Company**" and, together with its subsidiaries, the "**Group**") refers to the questions from the Securities Investors Association (Singapore) ("**SIAS**") in relation to the Company's annual report for the year ended 31 March 2025 and would like to set out its responses to the questions below. The Company did not receive any questions from shareholders as at the deadline stated in the notice of the annual general meeting released by the Company on 16 July 2025.

<u>Question 1</u>

For the financial year ended 31 March 2025, the group recorded revenue of $157.6 million, representing a year-on-year growth of 20.7%. Despite this top-line expansion, the group's gross profit margin declined from 12.4% to 9.3%. The engineering, procurement, and construction (EPC) segment remained the largest revenue contributor in FY2025.

30. Segment Information (Cont'd)

Segment revenue and results

	Group	
	2025	**2024**
	$'000	**$'000**
Revenue – EPC & Others	111,162	104,867
Revenue - O&M	44,251	22,433
Revenue - EBS	2,159	3,251
Total revenue	157,572	130,551
Gross profit – EPC & Others	6,060	14,297
Gross profit - O&M	9,063	2,132
Gross profit - EBS	(422)	(190)
Total gross profit	14,701	16,239

(Source: company annual report)

Gross profit margin in the EPC segment declined to 5.5%.

(i) **Could management clarify which specific legacy EPC projects led to the margin compression, and why this become more pronounced in FY2025 despite COVID-era projects also being present in FY2023 and FY2024? Was this due to backloaded cost recognition tied to final settlements and variation orders at project closure etc?**

As at 31 March 2025, the group has an order book of $228.6 million, largely made up of municipal EPC water and wastewater treatment infrastructure projects in Singapore. Most projects are expected to be completed by FY2027. Additionally, several large EPC projects are expected to be tendered in the next 12 months, offering potential growth opportunities for the group. On 10 July 2025, the group secured a new $105.3 million contract for mechanical, electrical, instrumentation, control, automation works at the upcoming NEWater plant located within the Tuas Water Reclamation Plant. This marks the group’s third Deep Tunnel Sewerage System (DTSS)-related project.

(ii) **What are the group’s sustainable competitive advantages in the EPC segment, particularly in winning complex projects such as the Tuas WRP and other DTSS-related tenders? How are these being reinforced to sustain a competitive edge as the project landscape evolves?**

(iii) **Is the group’s success in securing public infrastructure contracts driven by low-cost bids, and if so, how does the board manage the associated execution and margin risks?**

The group is also exploring opportunities arising from Singapore’s $100 billion coastal protection plan, having been involved in the initial pilot project at Pulau Tekong.

(iv) **How do coastal protection projects differ in design, risk profile, and margin structure compared to the group’s traditional EPC projects?**

<u>Company’s Response:</u>

(i) The margin compression in our EPC segment in FY2025 was mainly due to two legacy projects under PUB: the Tuas WRP Biosolids Treatment project and the Johor River Waterworks project.

Although both were COVID-era projects, the financial impact became more pronounced in FY2025 as we reached the final stages of execution. This was when we finalised major subcontractor accounts, settled variation orders, and recognised additional costs that had been deferred in earlier periods. These backloaded cost items significantly affected margins in FY2025.

Both projects also required revised forecasts due to rising material and manpower costs. Prolonged timelines — despite being supported by approved extensions of time — added to overheads and reduced profitability. Progressive procurement of key materials like piping, rather than bulk purchasing upfront, further exposed us to cost escalation.

(ii) Our competitive edge in the EPC segment, particularly in complex projects like Tuas WRP and DTSS, stems from a few key strengths:

- **Deep client familiarity**: We have worked with the same group of public sector agencies for over a decade and understand their technical requirements, expectations, and processes.

- **Integrated project delivery**: Our ability to share resources across projects and coordinate internally enhances efficiency and cost competitiveness.

- **Strong vendor network**: Our long-term relationships with suppliers allow us to negotiate better pricing and maintain control over project costs.

- **Engineering flexibility**: Our ability to propose viable alternative solutions that meet project specifications while optimising cost and constructability.

As the project landscape evolves, we continue to invest in internal capabilities, strengthen our supply chain partnerships, and reinforce our track record through timely and quality project delivery.

(iii) While most public infrastructure contracts are awarded through open tenders where price is a key factor, our success is not solely dependent on low-cost bids. We have won projects despite not being the lowest-priced, which reflects the market's recognition of our technical capabilities, track record, and reliability in execution.

That said, we are aware that competitive pricing can increase execution and margin risks. The Board addresses this by ensuring rigorous project selection, approving only those that align with our core strengths and resource capacity. We also adopt a conservative approach in cost estimation and contract budgeting, with regular reviews and risk assessments at key milestones. This disciplined approach helps safeguard margins while maintaining delivery standards.

(iv) Coastal protection projects are more complex due to exposure to strong waves, tides, and erosion—factors not present in inland EPC projects. These projects require specialised designs, more robust materials, and ongoing protection against saltwater corrosion. Construction is also more challenging due to limited site access and dynamic conditions.

While margins are expected to be comparable to typical public sector EPC projects, our involvement in the Pulau Tekong pilot has given us valuable experience. This strengthens our technical edge and positions us well for future coastal protection opportunities.

Question 2

Net cash used in operating activities was $8.8 million in FY2025. This comprises positive operating cash flow before working capital changes of $6.6 million, offset by a net outflow of $15.4 million due to working capital movements and income tax.

Statements of Financial Position
March 31, 2025

	Note	Group 2025 $'000	Group 2024 $'000
ASSETS			
Current assets			
Cash and bank balances	7	7,391	6,431
Trade and other receivables	8	19,555	20,779
Contract assets	10	73,928	62,085
		100,874	89,295
Assets classified as held for sale	9	3,826	6,625
Total current assets		104,700	95,920

Consolidated Statement of Cash Flows
Year ended March 31, 2025

	Group 2025 $'000	Group 2024 $'000
Operating activities		
Profit before tax	2,053	4,011
Adjustments for:		
Depreciation of property, plant and equipment	2,581	1,606
Depreciation of right-of-use assets	182	268
Gain on disposal of property, plant and equipment	(19)	–
Gain on disposal of assets classified as held for sale	(480)	–
Property, plant and equipment written off	–	32
Share-based payment expenses	56	–
Finance costs	2,315	1,668
Interest income	(127)	(156)
Exchange differences	64	(20)
Operating cash flows before movements in working capital	6,625	7,409
Trade and other receivables	1,224	(1,758)
Trade and other payables	(4,567)	(272)
Contract assets	(11,843)	(15,586)
Contract liabilities	484	(5,541)
Cash used in operations	(8,077)	(15,748)
Income tax paid	(721)	(1,053)
Net cash used in operating activities	(8,798)	(16,801)

(Adapted from company annual report; emphasis added)

A key driver of the negative working capital movement was the rise in contract assets, which increased by $11.8 million from $62.1 million to $73.9 million.

(i) **To what extent is the rise in contract assets attributable to internal project execution, such as documentation delays, variation order approval timing, or client-side milestones?**

(ii) **What process improvements are being implemented to accelerate billings and reduce working capital strain?**

Company's Response:

(i) As the contractor, the $11.8 million increase in contract assets was primarily driven by the structure and nature of our projects, rather than internal delays.

Key contributing factors include:

a. **Client-side milestones**: The majority of the increase is due to milestone-based billing arrangements, which are common in public and infrastructure contracts. We often incur significant upfront costs—including materials and subcontractor expenses—before reaching contractual milestones that allow us to raise progress claims.

b. **Delayed finalisation of variation orders:** Variation orders are typically only finalised and certified at the final account stage, even if the related works are completed much earlier. This defers revenue recognition and contributes to the increase in contract assets.

c. **Project scale and volume:** With more and larger contracts currently underway, higher levels of work-in-progress are expected. This naturally leads to timing differences between cost incurred and revenue recognition.

Given the nature of project, minor internal delays in documentation and submission processes may occur; however, continuous efforts are being made to streamline internal workflows and enhance coordination with project teams.

(ii) We are improving billing efficiency by engaging clients—especially public agencies—to break down large milestones into smaller phases, allowing for more frequent billing. While progress is gradual, this improves cash flow.

We are also reviewing supply chain terms to implement back-to-back payment arrangements with vendors. This may slightly reduce profit margins but helps ease cash strain by aligning outflows with inflows.

To further strengthen liquidity, we aim to secure short-term loans or revolving credit lines that are excluded from core covenants, bridging payment delays without impacting leverage. We also prioritise leasing over purchasing equipment to conserve cash.

Question 3

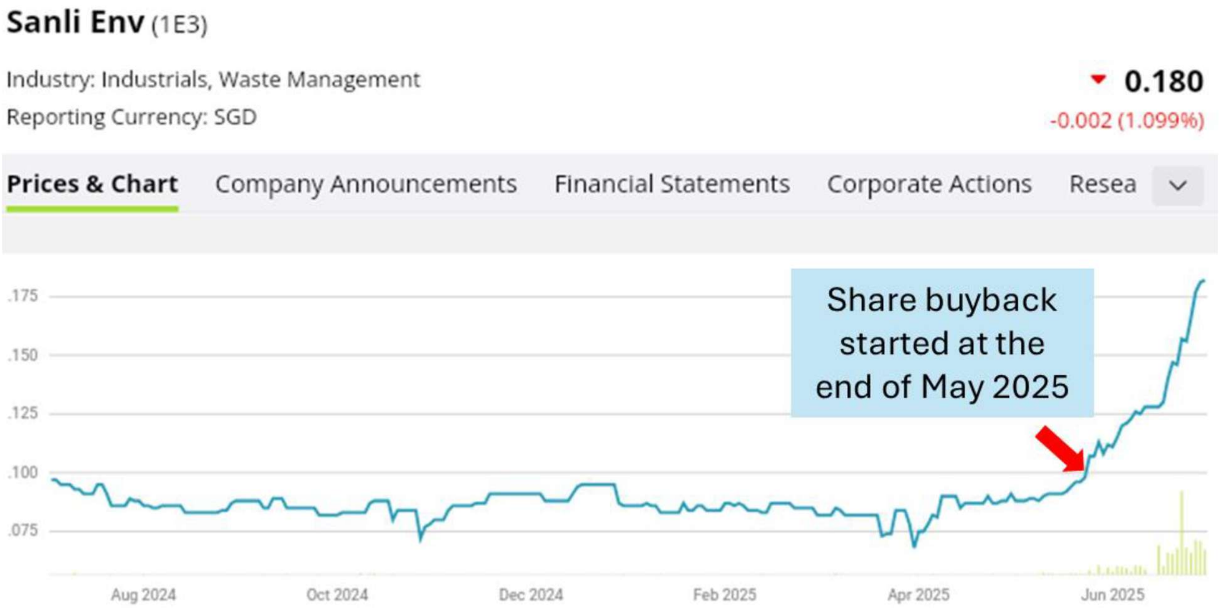
On 2 July 2025, the company entered into a placement agreement with SAC Capital Private Limited to place up to 33,333,333 shares at an issue price of $0.12 per share. The gross proceeds from the placement are expected to be up to $4 million.

The placement shares represent approximately 12.58% of the company's existing issued and paid-up share capital of 265,067,113 shares as at the date of the announcement.

02 Jul 2025 07:39 PM	SANLI ENVIRONMENTAL LIMITED	SANLI ENVIRONMENTAL LIMITED	Placements::Proposed Placement Of Up To 33,333,333 New Ordinary Shares At S$0.12 Per Placement Share	Placements
01 Jul 2025 07:35 AM	SANLI ENVIRONMENTAL LIMITED	SANLI ENVIRONMENTAL LIMITED	Request for Trading Halt::Request for Trading Halt	Request for Trading Halt
23 Jun 2025 06:12 PM	SANLI ENVIRONMENTAL LIMITED	SANLI ENVIRONMENTAL LIMITED	Share Buy Back - Daily Share Buy-Back Notice::Share Buy-Back - Daily Share Buy-Back Notice	Share Buy Back-On Market
20 Jun 2025 06:39 PM	SANLI ENVIRONMENTAL LIMITED	SANLI ENVIRONMENTAL LIMITED	Share Buy Back - Daily Share Buy-Back Notice::Share Buy-Back - Daily Share Buy-Back Notice	Share Buy Back-On Market
19 Jun 2025 06:47 PM	SANLI ENVIRONMENTAL LIMITED	SANLI ENVIRONMENTAL LIMITED	Share Buy Back - Daily Share Buy-Back Notice::Share Buy-Back - Daily Share Buy-Back Notice	Share Buy Back-On Market
18 Jun 2025 05:48 PM	SANLI ENVIRONMENTAL LIMITED	SANLI ENVIRONMENTAL LIMITED	Share Buy Back - Daily Share Buy-Back Notice::Share Buy-Back - Daily Share Buy-Back Notice	Share Buy Back-On Market
17 Jun 2025 05:47 PM	SANLI ENVIRONMENTAL LIMITED	SANLI ENVIRONMENTAL LIMITED	Share Buy Back - Daily Share Buy-Back Notice::Share Buy-Back - Daily Share Buy-Back Notice	Share Buy Back-On Market
13 Jun 2025 06:35 PM	SANLI ENVIRONMENTAL LIMITED	SANLI ENVIRONMENTAL LIMITED	Share Buy Back - Daily Share Buy-Back Notice::Share Buy-Back - Daily Share Buy-Back Notice	Share Buy Back-On Market
12 Jun 2025 05:22 PM	SANLI ENVIRONMENTAL LIMITED	SANLI ENVIRONMENTAL LIMITED	Share Buy Back - Daily Share Buy-Back Notice::Share Buy-Back - Daily Share Buy-Back Notice	Share Buy Back-On Market
10 Jun 2025 05:17 PM	SANLI ENVIRONMENTAL LIMITED	SANLI ENVIRONMENTAL LIMITED	Share Buy Back - Daily Share Buy-Back Notice::Share Buy-Back - Daily Share Buy-Back Notice	Share Buy Back-On Market
09 Jun 2025 05:35 PM	SANLI ENVIRONMENTAL LIMITED	SANLI ENVIRONMENTAL LIMITED	Share Buy Back - Daily Share Buy-Back Notice::Share Buy-Back - Daily Share Buy-Back Notice	Share Buy Back-On Market

(Source:https://www.sgx.com/securities/company-announcements?pagesize=20&value=SANLI%20ENVIRONMENTAL%20LIMITED)

The company started its share buyback at the end of May 2025, after the release of the results.



(Source: https://investors.sgx.com/market/security-details/stocks/1E3; emphasis added)

(i) **Can the board walk shareholders through its rationale for undertaking sizeable share buybacks shortly before announcing an equity placement? While both actions appear to be within the rules, how does the board address investor concerns that this sequence may create the perception of share price management?**

(ii) **What was the process for selecting SAC Capital Private Limited as the placement agent? Were alternative firms considered through a competitive evaluation?**

(iii) **As SAC Capital is also the company's continuing sponsor, how did the board evaluate any potential conflict of interest in appointing it as placement agent?**

On 11 July 2025[1], SAC Capital issued an equity research report setting a target price of $0.228 per share.

(iv) **Can the board clarify if there were any discussions or understanding, formal or informal, regarding research coverage or market visibility as part of the placement mandate?**

[1] https://www.saccapital.com.sg/wp-content/uploads/2025/07/25-07-11-Sanli-Environmental-Ltd.pdf

Company's Response:

(i) The share buybacks and the placement were undertaken in compliance with the relevant regulations independently, with distinct objectives aligned to the Company's capital management and strategic funding needs.

The share buybacks were primarily initiated to satisfy potential share awards under the Sanli Performance Share Plan 2023, at appropriate time. In conformity with the Catalist Rules and best practices on dealings in securities, the share buybacks were only conducted after the release of the Company's FY2025 financial results in late May 2025. The last share buyback exercise was conducted on 23 June 2025.

The placement, on the other hand, was initiated in end June 2025, following indications of interest from certain institutional investors who recognised the growth prospects of the Company. The two corporate actions remained independent in timing and intent.

(ii & iii) While a formal tender process was not conducted, the Board has carefully assessed the appointment of SAC Capital Private Limited ("**SAC Capital**"), who is also the Company's continuing sponsor, as its placement agent.

In its assessment, the Board has reviewed and considered, amongst others, the following:

- The proven track record of SAC Capital's placement agent team in executing similar fund-raising exercises for Catalist-listed companies, as well as their knowledge and familiarity of the Group's business since its IPO;
- Engaging an alternative firm may necessitated onboarding and coordination efforts, potentially resulting in delays to the placement execution which is usually time sensitive;
- The placement commission of 1.75% is below the prevailing market rates, which can range between 3% and 4%; and
- The placement agent role is carried out by a separate team from SAC Capital with distinct reporting lines, restricted access, and adequate regulatory safeguards in place to mitigate any conflict of interest with its sponsor activities. Such arrangements are also common in an IPO process, where the same firm acts as both full sponsor/ issue manager and placement agent.

(iv) The Board confirms that there were no discussions or understanding, formal or informal, regarding research coverage or market visibility as part of the placement mandate with SAC Capital.

The equity research report issued on 11 July 2025 is an independent initiative by the research arm of SAC Capital. The Company did not request, commission, or pay for the research coverage. The Company notes that the July 2025 report also follows SAC Capital research's earlier coverage in January 2024, as part of its continued research interest in the Company. The Company is of the view that the report reflects SAC Capital research's independent assessment of the Company's financial performance and prospects.

BY ORDER OF THE BOARD
Sanli Environmental Limited

Mr Ng Lip Chi, Lawrence
Non-Executive Chairman and Independent Director
25 July 2025

---

*This announcement has been reviewed by the Company's Sponsor, SAC Capital Private Limited (the "**Sponsor**"). This announcement has not been examined or approved by the Singapore Exchange Securities Trading Limited (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 Ms. Lee Khai Yinn (Tel: (65) 6232 3210) at 1 Robinson Road, #21-01 AIA Tower, Singapore 048542.