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Issuer: Sanli Environmental Limited

Stock code: 1E3

Meeting details:

Date: 29 September 2021

Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. 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?

Q2. 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)?**

Q3. 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 re-designation 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?**

^On 1 October 2020, the Accounting and Corporate Regulatory Authority (“ACRA”), the Monetary Authority of Singapore (“MAS”) and Singapore Exchange Regulation (“SGX RegCo”) published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings (“Meetings Order”) would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

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^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation
(<https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation>)