SOUTHERN ARCHIPELAGO LTD.
(Company Registration No. 199302554G)
(Incorporated in Singapore)

RESPONSES TO SECURITIES INVESTORS ASSOCIATION (SINGAPORE) QUESTIONS ON SOUTHERN ARCHIPELAGO LTD.'S FY2024 ANNUAL REPORT

The Board of Directors (the "**Board**") of Southern Archipelago Ltd. (the "**Company**") and together with its subsidiaries, (the "**Group**") refers to the following questions from Securities Investors Association (Singapore) ("SIAS") regarding the Group's annual report for the financial year ended 31 December 2024 and would like to provide the following responses.

Q1. The group's core business of sterilisation is carried out by its subsidiary, PT Rel-ion Sterilization Services ("PTRI") in Indonesia. Due to increased competition and operational challenges, PTRI's revenue declined 7.3% to $4.82 million, while segment profit declined disproportionately from $3.1 million to $2.5 million, suggesting margin compression.

Despite only a 7.3% decline in revenue, segment profit dropped 19.4%.

(i) Can management explain the key drivers behind this margin compression?

During the year, PTRI began investing to expand its capacity and improve operational efficiency. Property and equipment increased 86%, from $4.95 million to $9.20 million, with construction-in-progress totalling $4.17 million. Total borrowings rose from $4.23 million to $6.7 million, comprising secured bank loans (interest: 7.75%) and unsecured shareholder loans (interest: 2% to 4.65%).

(ii) What is the total projected capital expenditure for the PTRI expansion, and what was the board's hurdle rate used to approve the investment?

(iii) What is the expected payback period?

<u>RESPONSE:</u>

(i) The decline in PTRI's segment profit, despite a relatively modest 7.3% drop in revenue, was primarily driven by non-recurring and operational cost increases which resulted in margin compression in FY2024:

- A one-time expense of S$169,613 incurred for the disposal of cobalt waste, which was not present in FY2023 (FY2023: S$ Nil).
- Salary increments implemented during the year to retain talent in a competitive labour.
- A one-time bank charges related to early loan redemption, as well as a lower foreign exchange gain from the translation of intercompany loan compared to last year.

The factors collectively led to a disproportionate decline in segment profit relative to the decrease in revenue. Moreover, the reported revenue decline was largely due to currency translation differences from Indonesian Rupiah (IDR) to Singapore Dollar (SGD). On a local currency basis, the actual revenue decline was approximately 2.7%.

(ii) The total projected capital expenditure for PTRI's ongoing expansion is approximately $4.8 million. This includes investments in machinery, expansion of sterilisation chambers, and supporting infrastructure aimed to increase capacity and improving operational efficiency.

As of the end of FY2024, $4.17 million had been spent and is reflected under construction-in-progress.

The board approved the investment based on a hurdle rate of 10% internal rate of return (IRR), in line with the Group's capital allocation framework. This rate reflects both the strategic importance of the project and the associated investment risks in the Indonesian market.

(iii) Based on current projections, the expected payback period for the expansion is estimated to be within 5 years. This is based on conservative assumptions and takes into account:
- A gradual ramp-up in utilisation rates as the expansion is completed.
- Operational efficiencies expected to materialise post expansion.
- Anticipated revenue contributions starting in the second half of FY2025, along with continued margin improvements.

These projections factors in the current competitive environment and the evolving regulatory requirements in Indonesia.

Q2. On the corporate development front, aside from the voluntary liquidation of Raintree Rock Sdn. Bhd. and Trackplus Sdn. Bhd., the group disclosed that it continues to identify potential investment opportunities, although challenging market conditions have made it difficult to secure suitable deals.

(i) In the chairman's statement (page 4), it was noted that the group has decided to pause new acquisitions. Does this mean the group is exiting its efforts in the hospitality and wellness industry, or is it a temporary pause across all sectors?

(ii) If the group remains open to general investment opportunities, what is the ideal profile of a target company in terms of sector, size, geography, and strategic fit?

(iii) How do the controlling and substantial shareholders shape or influence the group's long-term strategy and capital allocation priorities?

(iv) Is the company currently advised by investment bankers, strategic consultants, or internal corporate development teams in identifying and evaluating potential acquisition targets?

(v) What experience does the board or senior management team have in deal sourcing, valuation and deal structuring?

<u>RESPONSE:</u>

(i) The decision to pause new acquisitions, as mentioned in the Chairman's Statement, is a strategic and temporary measure driven by the prevailing market environment. It does not represent a shift away from the Group's long-term commitment to the hospitality and wellness sectors. This pause applies across all sectors and is intended to ensure that any future investments are made prudently and aligned with the Group's risk-reward expectations.

The Group remains confident in the long-term potential of the hospitality and wellness sectors, particularly in the Southern Archipelago region, and will revisit acquisition activities when market becomes more favourable.

(ii) The Company remains opportunistic yet disciplined in evaluating potential investments. An ideal target company would typically exhibit the following profile:

<u>Sector:</u> Hospitality and wellness sectors aligned with the Group's sustainability principal, brand positioning and mission.

<u>Size:</u> Small to mid-sized businesses with scalability potential, typically with enterprise values in the SGD 5 to 50 million range.

<u>Geography:</u> Primarily focused on Southeast Asia, with a preference for opportunities that enhance existing capabilities or create strategic synergies.

Strategic Fit: Properties with a strong brand, differentiated offerings and alignment with the Group's sustainability principles and experiential lifestyle trends.

(iii) The Group's long-term strategy and capital allocation priorities are determined independently by the board and senior management. Strategic planning and investment decisions are guided by the Group's vision, market conditions, and operational goals, with a focus on sustainable growth and value creation for all shareholders.

While substantial shareholders do not participate in the formulation of strategy or capital allocation, the Group remains committed to strong corporate governance practices. In accordance with applicable regulations, any material transactions—such as mergers, acquisitions, disposals, or major capital commitments—are subject to shareholder approval where required. This ensures transparency, fairness, and accountability in the Group's decision-making process.

(iv) At present, the Company does not have a standing mandate with investment banks or strategic consultants. However, the Group maintains strong relationships with a network of advisors, including independent financial advisors and legal advisors whom we engage on a project basis as required.

Opportunity identification and initial evaluation are led by the board and senior management, who coordinate with external expertise as needed for due diligence and structuring support.

(v) The board and senior management team collectively bring deep expertise in accounting, finance and corporate development, including direct experience in deal sourcing, valuation, and deal structuring.

Several members have held senior roles in corporate advisory firms, providing them with a strong foundation in identifying investment opportunities, conducting due diligence and executing deals across multiple markets. The collective experience enables the Group to respond swiftly and strategically when compelling, value accretive opportunities arise.

Q3. As disclosed in the corporate governance report, the internal audit function of the group is outsourced to Baker Tilly Consultancy (Singapore) Pte. Ltd.

(i) What were the scope, key findings and recommendations by the internal auditor for FY2024?

(ii) Given the group's substantial capital investment into the Indonesian sterilisation business (PTRI), has the internal audit scope been updated to cover investment decision-making and capex governance?

(iii) How was the internal audit function executed for the group's foreign subsidiaries, including Gemisuria Corporation Sdn. Bhd. (Malaysia), Solid Base Limited (Seychelles), and PT Rel-ion Sterilization Services (Indonesia)? Were local audits conducted?

RESPONSE:

(i) For FY2024, the internal audit ("IA") function was conducted in accordance with the annual audit plan approved by the Audit Committee ("AC"). The scope covered key operational and financial processes, including procurement, payable & payments; bank & cash management; and human resources & payroll for the Group's core entities.

Key findings included:

- Enhancing account reconciliation processes.
- Refining the system to prevent duplicate supplier entries.
- Formalising standard operating procedures and policies for the processes reviewed.

- Formalising the delegation of authorities.
- Restating and strengthening the annual conflict of interest declaration process.

Recommendations focused on enhancing and formalising standard operating procedures, formalising delegation of authority, preventing duplicate system entries and implementing tighter control checks across business units.

Management has accepted the recommendations and is working with the internal auditor to track the progress of remediation efforts. No significant control failures or material non-compliance issues were identified during the audit.

(ii) The internal audit scope for FY2024 did not specifically include a review of investment decision-making processes or capital expenditure (capex) governance. While the internal auditor focused on core operational and financial controls.

Evaluation of investment governance, including appraisal and monitoring of capex deployment, was reviewed and addressed by senior management and the board, with oversight of AC.

Recognising the scale and strategic importance of the group's investment, the Board is considering expanding the internal audit scope in FY2025 to include a dedicated review of:

- Investment appraisal and approval processes
- Capex budgeting, deployment, and monitoring
- Post-investment performance tracking and reporting

This enhancement will help strengthen governance and ensure appropriate controls around significant capital investments.

(iii) As part of the group's risk-based internal audit approach in FY2024:

- PT Rel-ion Sterilization Services (Indonesia): Given its strategic significance and active operations, an on-site audit was conducted. The review covered procurement, payable & payments; bank & cash management; and human resources & payroll. Key recommendations were provided to enhance documentation and internal controls, and management is actively working to implement the recommended improvements.
- Gemisuria Corporation Sdn. Bhd. (Malaysia) and Solid Base Limited (Seychelles): These entities remained dormant throughout FY2024, with no material transactions or operational activity. Accordingly, no internal audits were conducted for these subsidiaries. Nonetheless, the Group maintains regular monitoring of all dormant entities to ensure compliance with statutory requirements and to reassess audit needs should their status change.

By Order of the Board
Southern Archipelago Ltd.

Siaw Lu Howe
Non-Executive Chairman
17 April 2025