



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 FINANCIAL YEAR ENDED 31 MARCH 2023 ("FY2023")

The Board of Directors (the "Board") of Sanli Environmental Limited (the "Company" and, together with its subsidiaries, the "Group") refers to the notice of the annual general meeting ("AGM") released by the Company on 13 July 2023 in relation to the Company's AGM to be held at 28 Kian Teck Drive, Singapore 628845 on Friday, 28 July 2023 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 the AGM.

Question 1

For FY2023, revenue increased by 65% to \$106.4 million, with the Engineering, Procurement, and Construction ("EPC") segment accounting for \$88.1 million while the Operations and Maintenance ("O&M") segment contributing \$18.3 million.

As disclosed in the chairman's message, the group's current order book is \$346 million, with works extending to early 2027.

- (i) **Can management provide further insight into the factors driving the increased demand for EPC services from the group's customers (and potential customers)?**
- (ii) **What is the customer acquisition strategy and what is the group's competitive advantage?**
- (iii) **What are the opportunities, including any major tenders, in the next 12-18 months?**
- (iv) **Is the group still faced with any major supply chain disruptions or manpower shortage resulting from the pandemic?**
- (v) **Enviro Plant & Engineering Pte. Ltd. ("EPE"), a wholly-owned subsidiary, specialises in providing comprehensive environmental engineering solutions for industrial clients in Singapore and Southeast Asia, encompassing water and wastewater treatment, air pollution control, and solid waste management. Can management help shareholders understand EPE's strategy to grow the environmental engineering business? What is EPE's value proposition to customers and does it have a track record in the business?**

- (vi) Similarly, through Mag Chemical Pte. Ltd., the group has also ventured into the manufacturing sector by setting up a magnesium hydroxide slurry batching plant. **What is the profile of the target customer and what are the uses of magnesium hydroxide slurry? How much commercial due diligence has been carried out and what is management's assessment of the size of the addressable market?**

Company's Response

- (i) This increase in EPC demand is mainly due to the larger-scale EPC projects that the Company has secured. The majority of the Group's projects typically have a duration of over 3 to 4 years to complete and the revenue is recognised by the percentage-of-completion accounting method. Therefore, the growth in EPC revenue is the result of the larger portions of these projects being executed and completed during the financial year 2023.
- (ii) The Group's customer acquisition strategy relies on its track record and strong technical expertise as well as the successful tendering for projects. The Group's competitive advantage lies in its experienced and committed management team, a pool of dedicated employees, and its ability to provide integrated engineering solutions and services that leverage its strong business relationships with suppliers and sub-contractors.
- (iii) Over the next 12 to 18 months the Group will actively pursue major municipal projects in Singapore by leveraging on our engineering expertise, track record, operational excellence and strong reputation. The Group closely monitors planned tenders by its major customer PUB and bids for projects that it is well positioned for, which include larger-scale projects. At the same time, the Group is building its foray into the manufacturing and industrial sectors, as well as exploring opportunities for partnerships, JVs, or M&As. Looking at the longer term, the Group also expects to explore the opportunities to participate in Singapore's S\$100 billion coastal protection plan that was announced in 2019.
- (iv) At present, the Company is well prepared and possesses the necessary resources to tackle its supply chain challenges effectively. However, inflationary pressures have led to increased prices of equipment and materials. One ongoing challenge for the Company is the availability of manpower, particularly foreign workers in Singapore, which is partly determined by the availability of dormitory housing. To address this, the Company has taken a proactive approach by acquiring the property at 22 Chin Bee Drive, which includes a license for a 270 foreign workers dormitory. This strategic move will help alleviate the shortage of foreign workers and ensure smooth operations.
- (v) The Company established its wholly owned subsidiary, Enviro Plant & Engineering Pte. Ltd. ("EPE"), on 14 April 2022 as part of a strategic effort to diversify beyond local municipal projects. EPE aims to capitalise on the Group's well-established track record and expertise to provide comprehensive environmental engineering solutions to industrial clients in Singapore and Southeast Asia, in the areas of water and wastewater treatment, air pollution control, and solid waste management.

The "made in Singapore" branding has been well embraced and acknowledged by overseas customers. We note that overseas customers are cognisant and have perceived that Singapore-made plants are at the forefront of advancement with high reliability, which provide competitive advantages for their projects. Given Sanli's prominent position as a leading EPC contractor in the environmental engineering sector within Singapore, numerous technology providers of advanced

systems are eager to collaborate with the Group's EPE. This willingness to collaborate enables the Group's EPE to offer comprehensive solutions that cater to the unique needs of its customers.

- (vi) The Company's wholly owned subsidiary, Mag Chemical Pte Ltd ("MagChem"), was established in June 2022 as an integral part of the Company's diversification strategy. MagChem manufactures and supplies magnesium hydroxide slurry, a versatile product used in various industrial applications, including environmental protection, flame retardant solutions, pulp and paper manufacturing, and pharmaceutical processes. This product finds wide applications in exhaust cleaning systems, wastewater and gas treatment, biogas generation from factory waste decomposition, and the neutralisation of heavy metals in wafer plants. MagChem's target customer base includes owners of municipal and industrial wastewater treatment facilities, palm oil mills, coal power plants, metallurgical plants, waste incineration plants, and ship owners seeking to reduce sulfur dioxide emissions through marine exhaust gas scrubber systems.

Before establishing the magnesium hydroxide slurry batching plant, the Company conducted thorough market research. This involved engaging with potential customers at various trade shows to understand their specific requirements and conducting pilot tests of the magnesium hydroxide slurry product with potential customers. The Company believes the market potential for magnesium hydroxide slurry may be significant due to its wide range of applications in various environmental industries. According to a report by Future Market Insights (FMI), a leading provider of market research reports, the global demand for magnesium hydroxide was valued at USD 939.5 million in 2021 and projecting it to reach USD 1.56 billion by the year 2030.

(Source: <https://www.futuremarketinsights.com/reports/magnesium-hydroxide-market>)

Question 2

In June 2023, the company entered into a sales and purchase agreement to acquire a property at 22 Chin Bee Drive Singapore 619870 for a purchase consideration of \$13.8 million. In the annual report, management has stated that the property will be set up as a dormitory for foreign employees. In the company's acquisition announcement, the company stated its intention to "consolidate the group's corporate office and workshops and house the company's foreign workers in a centralised location".

22 Chin Bee Drive is a 4-storey single user warehouse building with a 6-storey ancillary office and a 5-storey annex building with workers' dormitory. The total gross floor area is approximately 120,653 square feet.

Separately, on 17 July 2023, the group also announced the proposed disposal of 15 Kian Teck Drive for a consideration of \$2.8 million.

- (i) Can management clarify the use of the proposed property to be acquired? In addition, will all of the group's operations be consolidated at 22 Chin Bee Drive?**
- (ii) Are there any potential synergies or cost-saving benefits expected from consolidating the group's operations at 22 Chin Bee Drive?**
- (iii) Are there also plans to sell 28 Kian Teck Drive?**

Separately, the seller, being a REIT, had valued the property at \$13.0 million as at 31 December 2022, with the valuation conducted by Knight Frank. Prior to Sanli M&E leasing the property from the vendor in March 2023, the property appears to have been vacant for years.

- (iv) **Can management provide information on the negotiation process with the seller of the property proposed for acquisition? Did the board approve the acquisition, including the consideration of \$13.8 million, when the seller had valued the property lower at \$13.0 million?**
- (v) **What criteria were considered when the company selected and appointed Centuray 99 Pte Ltd as the valuer for the property?**
- (vi) **Can management provide an estimate of the expected capital expenditure needed to fit out 22 Chin Bee Drive to meet the operational requirements of the group?**

Company's Response

- (i) The proposed property acquisition of 22 Chin Bee Drive (the "Property") is part of the Company's strategic plan to streamline its operations in Singapore. The objective is to consolidate all of its Singapore operations under one roof, which will encompass its corporate office, workshops, magnesium hydroxide slurry batching plant, and foreign workers dormitory.
- (ii) Operating from a centralised location provides management oversight of all Group business units and drives operational efficiencies. The Property also comes with a license for a 270 foreign workers dormitory, and this presents significant long-term cost savings for the Company, as we note that third-party dormitory housing prices have been consistently increasing due to the shortage of supply.
- (iii) The Company will inform shareholders on the SGXNet platform as and when there are any transactions of disposal in accordance to the listing rules of the Singapore Exchange.
- (iv) The Seller's valuation of S\$13 million was based on an earlier dated report in 2022, and the Company's valuation of S\$13.8 million was based on a more recent valuation report dated 10 May 2023. The purchase consideration was then arrived at on a willing buyer and willing seller basis after a series of arms' length negotiations between the Company and the Seller. In deriving the final purchase consideration, the Group had taken into account Singapore's property market conditions, the current economic environment, and its independent valuation report on the Property.
- (v) Centuray 99 Pte Ltd is a qualified and licenced property valuation firm and it is included in the panel of valuers of the bank providing financing to the Company for the Property acquisition.
- (vi) The capital expenditure for the Property fit-out is estimated to be up to S\$1.8 million.

Question 3

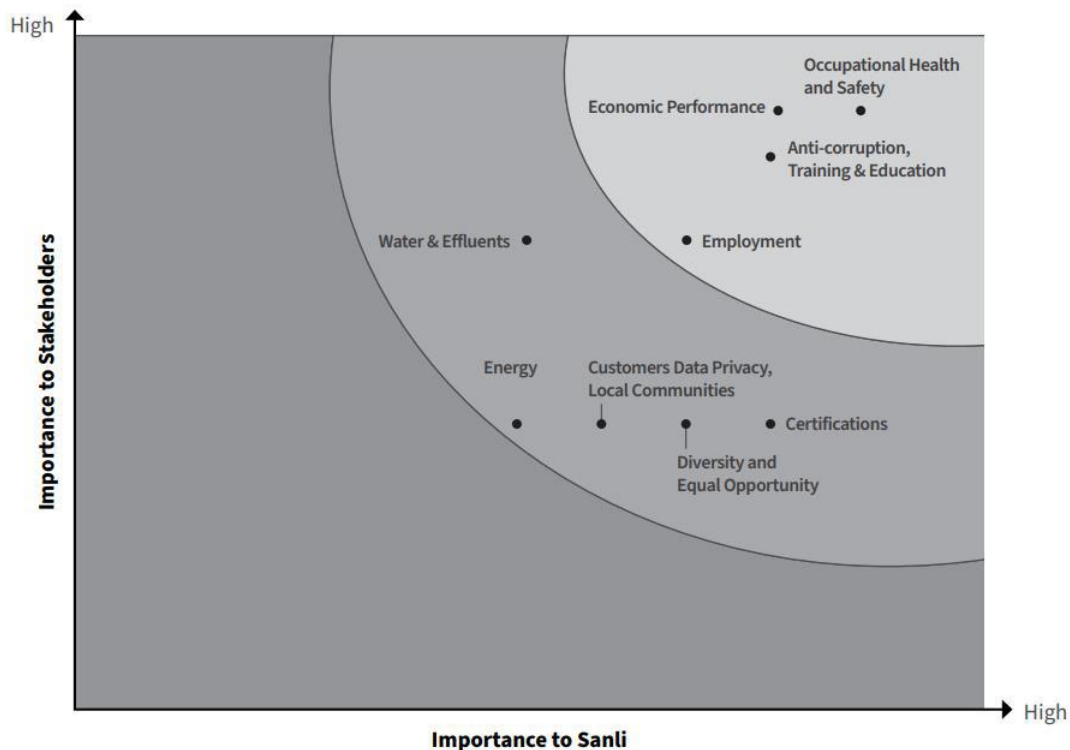
As disclosed in the Sustainability report, the group has established a Sustainability committee comprising senior management including the Chief Financial Officer, Corporate General Manager and Group Health, Safety and Environmental Department Manager. The committee is responsible for driving the group's

overarching sustainability strategy and channelling the implementation of sustainability initiatives in the day-to-day operations of business managers.

The board takes overall responsibility in overseeing and monitoring the group's sustainability management.

- (i) **Can the board provide further details regarding the roles and responsibilities of directors within the sustainability governance framework? Other than including sustainability on the agenda at board meetings, what specific actions or measures does the board undertake to actively drive, govern, and manage the sustainability function within the company?**

Following a materiality assessment, and leveraging inputs from stakeholders, the group has prioritised the material factors in a materiality matrix:



(Source: company annual report)

The group has established a Workplace, Health and Safety department which is responsible for ensuring that the safety measures which the group has put in place are adhered to. Details of such measures can be found on page 29.

For FY2024, the group has set a goal of zero incident of health, safety and environment non-conformity, accident and ill health and zero fatal accidents.

- (ii) **Is management reviewing its set of workplace, health and safety management policies and do the policies cover all subcontractors engaged by the group, ensuring comprehensive safety measures across the entire workforce?**

- (iii) **What is the level of training given to new employees; subcontractors; and even experienced employees at a new project/worksite?**
- (iv) **How does the board and management monitor the compliance of safety practices and policies within the group and among its subcontractors? Is there a system in place to regularly assess and enforce adherence to safety standards?**

Company's Response

- (i) The Group's Sustainability Committee reports to the Board and works with the Executive Directors to manage sustainability-related issues at the operational level. The work of the Sustainability Committee is then reviewed by the Board for input and direction.

The Board oversees the management and monitors the materiality of the Group's EESG (Economic, Environmental, Social, and Governance) factors, in order to set targets for the Group's material EESG factors. The objectives and the Group's sustainability performance are taken into consideration by the Board in determining the Group's strategic direction and policies.

The Board has completed their sustainability training in FY2023, empowering them with the knowledge and awareness necessary to make informed decisions. The Board is cognisant that sustainability is a journey and will seek trainings to update and equip with the skillsets required. Further actions and measures will be deliberated to further improve the Group's sustainability function. This ongoing commitment underscores the Company's dedication to advancing its sustainability goals and aligning its practices with responsible and ethical principles.

- (ii) The Company has a proactive approach to workplace safety and conducts an annual review of its Workplace, Health, and Safety Management policies. These policies are thoughtfully designed to encompass all stakeholders, including subcontractors engaged by the Group. This inclusive approach highlights the organisation's commitment to providing comprehensive safety measures for its entire workforce.

- (iii) The level of training provided to employees, subcontractors, and experienced personnel at a new project worksite is carefully structured to ensure a safe and efficient work environment:

- For new employees, there is a comprehensive onboarding program that covers essential company policies, workplace safety procedures, and for employees assigned to projects, an induction to the specific project they will be working on will be conducted. This induction typically lasts for a day, during which they receive training and mentorship from experienced colleagues to help them quickly integrate into their roles.
- Sub-contractors are also an integral part of the Company's safety and training initiatives. Inductions for sub-contractors are conducted, where they are thoroughly briefed on the Company's safety protocols, project requirements, and expectations for maintaining high-quality work standards. Sub-contractors also receive information on potential hazards, emergency procedures, and any project-specific safety considerations. The training for subcontractors is periodically updated to align with changing project demands, which includes monthly health and safety training to raise awareness among all subcontractors.

- Experienced employees joining a new project also receive specialised training. While they may already be familiar with the Company's safety practices, they are given project-specific training to ensure that they are well-versed in the unique challenges and requirements of the new worksite. This typically covers site-specific hazards, equipment usage, and any specific regulations or compliance needs.

(iv) Under the supervision of the Board, the management ensures the compliance of safety practices and policies within the Group and among its sub-contractors through a comprehensive approach that includes proactive measures and regular assessments. This entails conducting safety audits and inspections, monitoring performance metrics and reporting, establishing dedicated safety committees, and thoroughly evaluating subcontractor pre-qualification and ongoing performance.

BY ORDER OF THE BOARD
Sanli Environmental Limited

Mr Ng Lip Chi, Lawrence
Non-Executive Chairman and Independent Director
25 July 2023

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