ANNAIK LIMITED
(Company Registration: 197702066M)
(Incorporated in the Republic of Singapore)

RESPONSES TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION SINGAPORE IN RESPECT OF THE GROUP'S AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

The Board of Directors (the "**Board**") of AnnAik Limited (the "**Company**" and together with its subsidiaries and associated companies, the "**Group**") would like to provide its responses to queries from the Securities Investors Association Singapore (the "**SIAS**").

Q1. Would the board/management provide shareholders greater clarity on the following operational and financial matters? Specifically:

(i) **Manufacturing of steel flanges: Can management help shareholders better understand the group's manufacturing capacity for steel flanges and the utilisation rate in 2023? What is the estimated market share held by SHINSEI in Singapore?**

<u>Company's response</u>:
Based on current staff strength and 10 hours shift per working day, our manufacturing capacity for steel flanges is 1,800 tons per year and utilisation rate is 70% in 2023 taking into consideration the prevailing market demand and supply chain dynamics. We have not conducted a market research of the steel flanges segment in Singapore, and there are no publicly available statistics in relation to the market share of the SHINSEI brand.

(ii) **Trading: Can management provide further clarification on the "stop-start" strategy for the trading of steel and non-steel products business after cessation of business since September 2022? What factors contribute to any second thoughts regarding the continuation (or cessation) of the trading business?**

<u>Company's response</u>:
The "stop-start" strategy for trading of steel and non-steel products business refers to the temporary cessation of this segment in September 2022 after assessing rigorously the risks and rewards in carrying on this segment and its performance indicators such as gross profit margin over the past few years.

The Group will continue reviewing, amongst others, market conditions, gross profit margin, secured payment terms from customers and reliability of suppliers of this segment before resuming the trading business at an opportune time.

(iii) **Environmental division (China): Has the group successfully applied and received approval for tariff adjustments for the eight Build-Operate-Transfer ("BOT")/ Build-Operate-Own ("BOO") wastewater treatment plants in the past 1-2 years?**

<u>Company's response</u>:
Subject to the approval of the local municipal government, tariff adjustments are based on the increases in key operating costs, overall adjustment of water tariff rates in the operating region, and the prevailing government policies regarding the management of water resources. There had not been tariff adjustments for the eight BOT/BOO wastewater treatment plants in the past 1-2 years. The most recent tariff adjustments of certain plants occurred in year 2019.

Q2. The company has announced the disposal of its 51%-owned Pioneer Environmental Technology Pte. Ltd. ("PET") which is primarily engaged in hazardous wastewater business. This decision was made to "limit risk exposure of the group in engineering, procurement and construction ("EPC") projects in Singapore".

As recently as June 2023, PET entered into a joint venture agreement with a partner to carry out the business of production, business development, marketing, and recovery of lithium batteries in Malaysia. In April 2023, PET incorporated a new company in India to provide environmental engineering services and new energy related businesses.

The consideration for PET was agreed at $219,709.38, equivalent to the net asset value of the stake, even though PET has been profitable.

(i) **Can management confirm whether it authorised PET's expansion into the lithium business in Malaysia and environmental engineering in India despite having already made a decision on the disposal of PET?**

<u>Company's response</u>:
The management confirms that PET's expansion into lithium business in Malaysia and environmental engineering business in India were deliberated and authorised by the Group before a decision was made on the disposal of PET. The strategy is for PET to carry out hazardous wastewater treatment business in countries other than its home base, being Singapore and China and venture into new business.

(ii) **Does the board view the production and recovery of lithium battery business in Malaysia and the potential growth in environmental engineering services in India as not aligning with the group's strategic direction?**

<u>Company's response</u>:
The Board had viewed that the production and recovery of lithium battery business in Malaysia and the potential growth in environmental engineering services in India as aligned with the Group's strategic direction. The entry into a joint venture in Malaysia and incorporation of the new subsidiary in India were intended to grow the Group's environmental business and also venture into other green and sustainable business under its hazardous wastewater treatment division. However, having reviewed the continuing risk exposure of the Group in participating EPC projects in Singapore, the Board concurred with the management's deliberation on the disposal of PET. Furthermore, as at date of deemed disposal of PET group, both entities in Malaysia and India have yet to commence any operations. With the disposal of PET group, the management will continue to identify opportunities to expand into businesses which align with this strategic direction of the Group.

The company announced the proposed disposal of PET on 13 December 2023 on SGXNet. In the financial statements, the date of disposal was deemed to be on 30 September 2023, the date used to determine the net asset value of the Pioneer Group.

(iii) **Has the disposal been completed? Is it a common practice to use an earlier date as the date of disposal in the financial statements? What was the reason for this arrangement?**

Company's response:
While the conditions precedent in the Sale and Purchase Agreement ("**SPA**") entered on 13 December 2023 have been met on 12 April 2024, both parties are still working towards legal completion. It is not uncommon to use an earlier date as the date of disposal in the financial statements given that the sale consideration as negotiated and mutually agreed between both parties in the legally binding SPA was based on the net asset value of the PET group as at 30 September 2023.

(iv) **Has the company been released from the corporate guarantee, bank guarantee and financial support letter ("Securities")?**

Company's response:
As at date of this announcement, the Company has not been released from all Securities. Nevertheless, the Company continues to be protected by the back-to-back guarantee in the form of property and shares pledged and personal guarantee provided by the purchaser, as well as a yearly fee of S$90,000 payable by the buyer until all Securities are discharged and released.

Q3. The "impairment assessment of trade receivables" is a key audit matter (KAM) highlighted by the independent auditors in their report on the audit of the financial statements. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, as at 31 December 2023, the group has net trade receivables of $19.2 million. Even as revenue in the year declined by 42% to $47.7 million in FY2022, trade receivables are higher at $19.2 million compared to $18.7 million in the previous year.

Note 40(a) further shows that $13.7 million of the net trade receivables are from customers in China.

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country profile of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's trade receivables (net) at the balance sheet date is as follows:

	2023		2022	
	$'000	**% of total**	**$'000**	**% of total**
By country:				
Singapore	**4,820**	**25%**	5,937	32%
Malaysia	**664**	**3%**	261	1%
People's Republic of China	**13,734**	**72%**	12,507	67%
	19,218	**100%**	18,705	100%

There were no customers who represented more than 5% of the total balance of trade receivables.

(Source: company annual report)

Based on Note 43 (Service concession arrangements), the total service concession revenue recognised in 2023 was $13.34 million.

43. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into several service concession arrangements within certain governing bodies and agencies of the People's Republic of China government to construct and operate wastewater treatment plants.

Group	Construction revenue $'000	Operating income of wastewater treatment plants $'000	Total service concession revenue $'000
For financial year ended 31 December 2023	**620**	**12,720**	**13,340**
For financial year ended 31 December 2022	3,854	12,074	15,928

(Source: company annual report)

From Note 40(a) Credit risk: Trade receivables, it can be seen that approximately $10.5 million of $14.5 million in trade receivables is current, for other geographical areas (other than Singapore).

Other geographical areas:

2023	Current $'000	Less than 30 days $'000	30 to 60 days $'000	61 to 90 days $'000	More than 90 days $'000	Total $'000
Gross carrying amount	**10,498**	**2,108**	**345**	**473**	**1,100**	**14,524**
Loss allowance provision	**11**	**15**	**38**	**24**	**38**	**126**

(Source: company annual report)

(i) **What are the reasons that $10.5 million of trade receivables is considered current when the full year revenue is $13.3 million? One would assume that the wastewater treatment plants operate throughout the year.**

<u>Company's response</u>:

Majority of the trade receivables as at 31 December 2023 comprises of amounts outstanding from local municipal government authorities for offtake guarantees. The offtake guarantee refers to the minimum guaranteed sum provided by the local municipal government from the provision of wastewater treatment services. This guarantee from the local municipal governments is to compensate for the shortfall in the wastewater treated based on the designed capacity under the respective service concession contract.

The Group recognises revenue from the provision of wastewater treatment services at a point in time when the services have been rendered and records corresponding accrued revenue (i.e. services rendered but not billed) under the current portion of trade receivables. Conversely, as billings for offtake guarantee are subject to completion of audit and funding allocation by the local municipal government authorities, which may happen more than a year after the services have been rendered, the current portion of the trade receivables is not typically equivalent to the full year revenue from the PRC.

(ii) **Can the audit committee (AC) help shareholders better understand the billing practices of the wastewater treatment plants? Specifically, how frequently are customers billed under the BOT or BOO business models that the plants operate under?**

<u>Company's response</u>:
According to the BOT/BOO contracts signed with various local municipal governments in China, our billing practices of the wastewater treatment plants can be segregated into two main sources:

(a) Monthly billings to factories/plants that discharge wastewater to our plants based on meter readings. These receivables typically have a credit term of 30 – 90 days.

(b) Billings to local municipal government for offtake guarantee are generally billed in the following year after completion of an audit and funding allocation by the respective local municipal government as highlighted in (i) above. Accordingly, this cycle typically takes up to 18 months.

(iii) **Can the AC confirm that there are no significant hurdles in collecting the group's debt from customers of the wastewater treatment plants in China?**

<u>Company's response</u>:
Due to deterioration of business sentiments in China during the COVID-19 pandemic and post-pandemic, the Group had faced some delays in collecting debt from its customers, especially local municipal governments of the wastewater treatment plants in China. A significant portion of our receivables relates to offtake guarantees provided by local municipal governments to compensate for the shortfall in treating wastewater based on the respective service concession contract. The management had observed a general slowdown in funding by most of the local municipal governments in China post-pandemic which has affected the duration of collections. Nevertheless, we have been in touch with our relevant partners at the Singapore Government agencies and other government departments in China to expedite collections.

BY ORDER OF THE BOARD

Ng Kim Keang
Executive Director
23 April 2024

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*This announcement has been reviewed by the Company's sponsor, SAC Capital Private Limited ("**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.*

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