ANNAIK LIMITED

(Company Registration No. 197702066M)
(Incorporated in the Republic of Singapore)

RESPONSE TO QUESTIONS RECEIVED FROM SHAREHOLDERS PRIOR TO THE COMPANY'S ANNUAL GENERAL MEETING

The Board of Directors (the "**Board**") of AnnAik Limited (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to address questions received from shareholders of the Company prior to the upcoming annual general meeting for its financial year ended 31 December 2020 to be held on 30 April 2021 at 10.00 a.m. by way of electronic means.

Questions from shareholders

Deputy CEO Resignation from Board

1. **Is there a change in succession planning with the resignation of the Deputy CEO from the Board of Directors?**

   Company's response:
   The succession planning is an ongoing process and there is still no fixed candidate who may assume the role of CEO at the moment. The recent resignation of the Deputy CEO is to provide an opportunity to another potential successor to join our Board in which an announcement was made on 26 April 2021. This arrangement will facilitate more choices for the Board to consider the successor, including the Deputy CEO, over the next 3 – 5 years.

2. **Does the Deputy CEO's resignation from the Board mean our Company now complies with the Code of Corporate Governance 2018 to have the number of independent directors to form the majority of the Board?**

   Company's response:
   No. As mentioned above, we have appointed another Executive Director to the Board to widen the pool of potential candidates for the role of CEO in the near future.

Steel related Business

3. **Will the rise in steel prices benefit our Company in context of existing inventory?**

   Company's response:
   The recent rise in steel prices benefited our company in the context of existing inventory especially for quarter 1 of 2021.

4. **Has our Company been able to maintain the steel business's gross margin with the increase in steel prices?**

<u>Company's response:</u>
The Company's steel distribution business is able to maintain or derive higher gross profit margin with the increase in steel prices especially in quarter 1 of 2021.

Wastewater Treatment Business

5. **Can our Company elaborate more on the hazardous wastewater business in SG in terms of revenues and number of projects?**

<u>Company's response:</u>
The hazardous wastewater business in SG is to provide tailor made treatment system to customers who require our services under turnkey or Engineering, Procurement and Construction ("**EPC**") basis. In 2020, this business in SG contributed revenue of $1,891,000 from 2 major projects.

6. **Given the high capex and competitive nature of the PRC wastewater market, how did we compete with the major State-Owned Enterprises (SOEs) for new wastewater projects?**

<u>Company's response:</u>
We understand the high capital expenditure ("**capex**") and competitive nature of the PRC wastewater market especially from SOEs for new wastewater projects in PRC. Thus, the Company has adopted, since 2005, a more focused approach by building our profile and track records in Zhejiang province, Huzhou City. Being present in this particular location over the past 16 years, we still have some opportunities to obtain new wastewater treatment projects or via acquisition of brown field projects.

7. **Notes 38 of Annual Report - What is the breakdown of environmental business in terms of EPC and recurring water treatment revenue? What much of the revenue is in PRC vs SG?**

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

	SG	**PRC**	**Total**
	S$'000	**S$'000**	**S$'000**
EPC	1,891	2,407	4,298
Recurring water treatment revenue	-	12,797	12,797
Total	1,891	15,204	17,095

8. **Notes 42 of Annual Report - can our Company also share the start dates of the respective concessions for the projects listed? Can our Company share the date of the last tariff adjustment for the respective projects?**

Company's response:

Wastewater Treatment Plants	Start Date of Concession
ChangXing AngWei Environmental & Ecological Engineering Co., Ltd.	2010
ChangXing Lijiaxiang New Era Wastewater Treatment Co., Ltd	2007
ChangXing Annyi Wastewater Treatment Co., Ltd	2016
ChangXing Hengyi Wastewater Treatment Co., Ltd	2017
Shuanglin (Huzhou) Wastewater Treatment Co., Ltd	2012
ChangXing LinYi Wastewater Treatment Co., Ltd	2020
ChangXing LinSheng Wastewater Treatment Co., Ltd	2010
ChangXing Wusheng Wastewater Treatment Co., Ltd	2010

Tariff adjustment is on average between 3 – 5 years.

Capital Management

9. **How is our Board intend to improve shareholder value, especially the deep market price discount to NTA?**

Company's response:
The Board is constantly looking into potential restructuring exercise including but not limited to spin-off of environmental business or partnering with synergetic companies to enhance the shareholder value for the Group. On the other hand, we will continue to ensure smooth operations, efficiency in scale and unwind unproductive fixed assets or investment to provide sustainable profit and cash flow to the Group via dividend declaration.

Profit After Tax Attributable to Owners of the Company and Non-controlling Interests

10. **On page 42 of the Annual Report, I note that of the profit of $1,832,000 for 2020, only $177,000 is attributable to Owners while the Non-controlling interest share of the profit is $1,655,000. Owners/Non-controlling interest attributable profit ratio is therefore about 10/90 for 2020. This contrasted sharply from 2019 where the Owners have a much bigger share (Owners/Non-controlling interest attributable profit ratio of 62:38).**

Company's response:

As mentioned in page 7 of the operation review, the Group's profit attributable to owners of the Company for the year ended 31 December 2020 was S$0.18 million after taking into account the allocation of profit to minority shareholders of non-fully owned subsidiaries especially from the environmental business and the full share of weakened results from steel distribution and other business units.

However, AnnAik Limited had a one-off gain on bargain purchase from fair value exercise for the strategic step-up acquisition of 20% in Huzhou Shuanglin amounting to S$1.72 million which was 100% pertaining to the Group's results without any allocation to minority shareholders in FY2019. By excluding this one-off 100% share on bargain purchase from profit attributable to the owners of the Company, its net impact on the profit attributable to owners of the Company would have reduced from S$2.147 million to S$0.427 million with non-controlling interests of S$1.33 million in FY2019 and therefore in line with the current trend observed in FY2020.

11. **On page 45, I note that Non-controlling interest equity is $13,157,000 versus the $60,128,000 equity of Owners. So, for 2020, the profit attributable to Non-controlling interest is bigger than that for Owners notwithstanding Non-controlling interest lower equity amount.**

Company's response:

Those non-fully owned subsidiaries especially in environmental business were making profit contribution which the Group need to account for the share of profit with minority shareholders ranging from 12% - 49%. In contrast, those fully-owned subsidiaries especially in steel distribution and manufacturing businesses, together with the listed entity, were making lesser profits or being held as the cost centre which led to the above situation observed.

Property

12. **Our major property in Singapore is at 52 Tuas Avenue 9 - the 2-storey office building with attached single storey warehouse, and a 2-storey warehouse with mezzanine floor on 11,633 square metres of land. What is the approximate current market value of this property today? (the land, office building and the warehouses).**

Company's response:

The current market value is approximately S$20 million based on recent valuation conducted on January 2021.

13. What is the current utilisation level of our warehouses?

Company's response:

Current utilisation is close to 100% (Approximately 5% of the space is currently rented out).

14. Any possibility to squeeze out some unused warehouse space and rent out for additional income?

Company's response:

It is not possible to squeeze out more space as we are anticipating higher inventories due to increase in steel prices.

BY ORDER OF THE BOARD

Ng Kim Keang
Director
29 April 2021
