ANNAIK LIMITED

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

RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION SINGAPORE IN RESPECT OF THE GROUPS'S AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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 the following information in response to queries from the Securities Investors Association Singapore (the "**SIAS**").

SIAS's queries

Q1. While the group reported an 8% decrease in revenue to $52.3 million for the financial year ended 31 December 2019, it benefitted from higher service income from the environmental business and higher construction revenue. In the chairman's message, it was said that "given the uncertain operating environment, the distribution division registered weaker growth" (page 3 of the annual report).

In Note 40(a) (page 107 – Segment information: Business segments; reproduced below), external revenue from distribution actually decreased by 33% to $29.8 million. Total revenue slipped by 35% and segment loss increased by 6% to $(2.025) million.

Business segments

	Distribution	
	2019	**2018**
	$'000	**$'000**
		(Restated)
Revenue		
External revenue	**29,980**	44,689
Inter-segment revenue	**1,041**	3,284
Total revenue	**31,021**	47,973
Result		
Segment results	**(2,025)**	(1,904)

(Source: company annual report)

SIAS's query Q1.1

(i) Can management help shareholders understand the group's competitive advantage in its distribution business?

The segment has reported losses of $(4.35) million, $(6.26) million, $(3.39) million and $(1.90) million from FY15-FY18 respectively. The distribution segment last contributed a segment profit of $1.51 million in FY214.

Company's response

Our distribution business comprises two sub-businesses; (a) stockiest business in supplying of steel piping products to oil and gas, petrochemical, shipping and marine and utilities sectors in Singapore and South East Asia ("SEA") regions and (b) trading of flat steel products in international markets with no stock holding position in Singapore.

Due to volatility of oil prices and demand curb as major industry players are holding back their capital expenditure, the operating environment of our distribution business, especially the stockiest business, registered a weaker growth in turnover and accounted for a decrease of S$1 million as compared to the prior year. In addition, compounded by the trade barriers and duties imposed in its principal markets of our trading units, the revenue of our distribution business dropped further by S$14 million as compared to the prior year.

The competitive advantage of the group's distribution business is our stockiest business which has been operating in Singapore for about 43 years and it is complemented by the flat products trading business which was recently set up to widen the range of products supply for the group. Moreover, due to the capability to manufacture forged steel flanges in the Malaysian plant and the supply of valves from its principal partners from overseas, we are able to provide a more comprehensive package to customers in Singapore and SEA especially for project sales and/or provide additional budgeting services during the tender stage. Both of these unique distribution strategies from stockiest and trading business coupled with the manufacturing business capability and collaboration arrangement with its principal partners will enhance the competitive advantage of the group's distribution business in the local and international markets.

SIAS's query Q1.2

(ii) What are management's plans to make the distribution segment profitable?

Company's response

As a company practice of presentation, we normally incorporate operating cost of listed entity (i.e. AnnAik Limited) into distribution business in the segmental report. The Company's financial results reflected a loss for the past few years was mainly due to the lower profit generated from our distribution business to support the operating cost of the listed entity. If the operating cost from the listed entity is excluded from the distribution business analysis, this business is profitable and the management is committed to secure more sales in the distribution business in order to have a larger profit contribution from this division to the group's results.

The management has enhanced its marketing team in Singapore with the recent appointment of a sales director to tap on the unique one stop solution strategy from being a stockiest of steel piping products to the trading of flat steel. Furthermore, the marketing team's upcoming marketing efforts in our upstream manufacturing steel flanges business and the good collaboration with the principal partners of valves suppliers from overseas will help to secure more project sales in Singapore and SEA going forward.

SIAS's query

Q2. In his message, the chairman referred to the recently concluded Rights-cum-Warrants issue as "successful" (page 3).

Based on the company's announcement dated 9 October 2019, valid acceptances by shareholders of the company amounted to only 53.0%. This included the 20,659,470 Rights Shares with 20,659,470 Warrants or 32.4% from the undertaking shareholders, being Mr Ow Chin Seng, the executive chairman and CEO, who is also a controlling shareholder, and his spouse, Madam Low Kheng.

Excluding the undertaking shareholders, it is estimated that all other shareholders subscribed for only approximately 30% of the available Rights cum Warrants.

SIAS's query Q2.1

(i) Has the company evaluated (ex-post) the low subscription rate by minority shareholders to the Rights cum Warrants issue?

Company's response

The company is of the view that the low subscription rate by minority shareholders to Rights cum Warrants issue may be due to the uncertainty in the economy and poor market sentiments.

SIAS's query Q2.2

(ii) Would the board, especially the independent directors, help shareholders understand if the board deliberated on the possible dilution to minority shareholders before the issue?

Company's Response

The proposed Rights cum Warrants issue was raised since 2015 but aborted due to uncertain market conditions associated with the slowdown in global economy in 2015 (refer to announcement dated 2 October 2015). The management revisited this option again in the middle of 2018 due to the need of additional funds in the expansion of our environmental business in the People Republic of China ("PRC") and also to seize the environmental business opportunities in SEA.

As part of our capital management strategy reviewed by the management regularly, we have considered, examined and deliberated the source of funding from bank loans, rights issue, placement, convertible loan and private investment from external parties and etc. In order to strike a balance between safeguarding existing shareholders' interest and the expansion of its profitable environmental business, the Company has taken into consideration the following issues which include funding requirements in Merger and Acquisition ("M&A") opportunities and ensuring a healthy gearing ratio for the group. Finally, the management proposed to engage in a Rights cum Warrants issue which will provide an equal opportunity to all shareholders in the subscription as the best option.

The undertaking from our major shareholder is an encouragement and commitment to the Company and other minority shareholders when the market was relatively uncertain associated with poor business sentiment. We were not able to control the subscription rate as all shareholders were given an equal opportunity to subscribe for the Rights cum Warrants Issue and thus there were no intentions of diluting the minority interest. Our aim of this fund raising exercise via Right cum Warrants issue is to strengthen our financial position and also deploy some internal resources for the expansion of our profit-making environmental business in the PRC and SEA region.

SIAS's query

Q3. In the financial year, the group's subsidiary company, LinXing Water Supply Co., Ltd. sold its property, plant and equipment with carrying amount of RMB8.63 million (equivalent to $1.67 million) that were used in its operations for a consideration of RMB16.2 million (equivalent to $3.14 million). This resulted in a gain of $1.47 million.

Subsequent to the sale of the property, plant and equipment, LinXing ceased its operations and became dormant. With the cessation of operations, the group also recognised an impairment loss for the goodwill related to LinXing amounting to $842,000 and wrote off a further $82,000 for the rights to draw water that was to support the operations.

The group's 85% stake in LinXing Water Supply Co., Ltd was recently acquired in FY2017.

SIAS's query Q3.1

(i) What are the reasons for the cessation of operations at LinXing just two years after the group's acquisition?

Company's response

As mentioned in our announcement dated 20 August 2019, the disposal and the winding up of LinXing was initiated by the government of ChangXing to acquire and consolidate water supply assets and companies in ChangXing to ensure distribution of safe drinking water within ChangXing. The government of ChangXing had appointed ChangXing Urban Construction Co., Ltd. (长兴城市建设投资集团有限公司) (“ChangXing Urban Construction”) for the acquisition of such water supply assets and companies in ChangXing, and ChangXing LinCheng QingQuan Water Supply Co., Ltd (长兴林城清泉水务有 限公司) was further designated by ChangXing Urban Construction as purchaser in respect of the disposal.

As a foreign company operating in PRC, we had to comply with the local or national guideline and instructions even though we were not in favour to dispose this profit-making asset which was acquired in 2017. Nevertheless, the consideration was determined based on an arm's length, willing-seller-willing buyer basis, after taking into account various factors including the net book value of the assets and valuation conducted by purchaser and ultimately led to a gain on disposal for the group.

SIAS's query Q3.2

(ii) How does the group source for new wastewater treatment plants in the PRC?

Company's response

The group has invested in wastewater treatment business plants under the Build-Own-Transfer (“BOT”)/ Build-Own-Operate (“BOO”) model in Changxing County, Huzhou City, Zhejiang Province, PRC since 2005. Since the operation of the first plant in 2006/2007, we have grown our investment to 8 wastewater treatment plants under BOT/BOO model till date based on our long-term plan in this business. The group sources for new wastewater treatment plants in the PRC through referrals from our management team's contacts and key stakeholders of the company. As a rule of thumb, we will continue to look for good investment opportunities especially internal expansion projects in Zhejiang Province which we have strong track operating records and good market reputation. In addition, we will also look out for other opportunities in the coastal and developing areas in the PRC to consider potential investment of wastewater treatment business under the BOT/BOO model via M&A moving forward.

SIAS's query Q3.3

(iii) Would the board help shareholders understand the strategic direction of the group's environmental business, in particular, the acquisition and divestment policies?

Company's response

Our strategic direction is principally focused on M&A exercise in the PRC, especially Zhejiang province and coastal areas. We also prepared for some small investment in SEA to diversify our concentration risk in PRC to other markets. Currently, we do not have any acquisition and divestment policies but all decisions will be proposed by the management and approved by the Board of the Company.

BY ORDER OF THE BOARD

Ng Kim Keang

Executive Director

27 April 2020

This announcement has been reviewed by the Company's Sponsor, Hong Leong Finance Limited. It has not been examined or approved by the Exchange and the Exchange assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made or reports contained in this announcement.

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