

SAN TEH LTD

(Company Registration No. 197901039W)

RESPONSE TO QUERIES RAISED BY SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ("SGX-ST")

In response to the queries raised by the SGX-ST on 6 September 2017 with regards to the Second Quarter Financial Statement Announcement for the period ended 30 June 2017 which was released on 14 August 2017, the Directors of San Teh Ltd (the "Company" and together with its subsidiaries, the "Group") would like to provide following additional information:

SGX-ST's query 1:

Please disclose the reasons for the increase in "Cost of sales" to S\$4.69 million.

The Company's response:

The increase in cost of sales is mainly caused by the substantial increase in the raw material price. The price of PVC resin, our key raw material component, has increased by approximately 18% as compared to the previous corresponding period.

SGX-ST's query 2:

Please provide a breakdown of the S\$18.65 million between trade receivables and other receivables, as well as the aging schedules.

- Please explain why the amount is so significant as compared to 2Q2017 revenue of S\$4.78 million, and disclose when the amounts will be collected.
- Please provide reasons why the Company is unable to collect its trade receivables which have results in an amount that is greater than its 1H2017 revenue of only S\$8.21 million.
- Please provide details of the underlying contracts which gave rise to the significant "other receivables" amount and reasons for the "other receivables" recorded.

The Company's response:

The breakdown of trade and other receivables is as follows:

	S\$'000
Trade receivables from:	
BT project	6,952
PVC pipes and fitting operation	6,722
Shanghai Anting project	1,584
Others	84
	15,342
Less: Impairment loss on trade receivables	(668)
	14,674
Other receivables	
Associate	1,159
Non-related parties	1,095
Less: Impairment loss on other receivables	(1,344)
Deposits paid	2,161
Interest receivables	259
Prepayments	650
	18,654

Aging analysis of trade and other receivables:

	S\$'000
Not past due	13,792
Past due 1 - 30 days	1,123
Past due 31 - 60 days	653
Past due 61 - 90 days	66
Past due 91 – 120 days	37
Past due more than 120 days	2,983
	18,654

- a. Trade receivables mainly consist of the amount due from the Anxi local government arising from the build-and-transfer (“BT”) project and trade receivables from PVC pipes and fittings operation. The amount of trade receivables is so significant as compared to 2Q17 revenue of S\$4.78 million is principally because of the amount due from the Anxi BT project. The project was completed in 2014 and the project revenue was fully recognized by that year. The 2Q17 revenue is predominantly made up of PVC pipes and fittings sales.
- b. The Group is unable to collect its trade receivables which have results in an amount that is greater than its 1H17 revenue of only S\$8.21 million because: (i) the S\$6.95 million due from Anxi local government is the 6th and the last installment payment which will only be due for repayment at the end of September 2017; and (ii) for trade receivables from PVC pipes and fittings operation, approximately 80% are in respect of government projects. These government projects for supplying pipes and fittings require audit by the relevant authority to be conducted before outstanding amounts are approved for payment and such audit takes considerable amount of time to complete. Based on past collection history, the trade receivables from the government projects can be collected in full despite the longer period taken to collect the debts.
- c. Other receivables consist of:
 - Non-trade advances due from the associated company;
 - Non-trade advances due from third parties and advance payment made to government agencies such as tax authority and provident fund;
 - Deposit paid for the construction of the property project in Dali;
 - Security deposit paid for project tendering undertaken by the PVC plant;
 - Interest receivables from the investment securities held; and
 - Miscellaneous prepayments such as insurance premiums made by the Group.

SGX-ST’s query 3:

On page 14 of the Announcement, it was disclosed that Suzhou hotel operation had been suspended for redevelopment work. Please disclose what is being undertaken in the redevelopment, the cost of construction and how it will be funded.

The Company’s response:

Suzhou hotel will be redeveloped and repositioned as an integrated resort consisting a hotel to be operated under the Novotel franchise, together with a health management centre, outdoor traditional Chinese medicine spa garden, outdoor adventure centre and children playground.

The estimated cost of construction is RMB84.0 million (approximately S\$17.0 million) and the Group plans to use internal funds for the Suzhou redevelopment work.

SGX-ST's query 4:

It was disclosed that revenue of the PVC pipes and fittings operation had increased. Please disclose the factors which resulted in the increase in revenue.

The Company's response:

Revenue from PVC pipes and fittings operation had increased from S\$3.1 million in 2Q16 to S\$4.0 million in 2Q17 owing to higher sales quantity. The Group won more projects for supplying pipes and fittings through tendering is the contributing factor for the increase in revenue.

BY ORDER OF THE BOARD

Lim Wee Tziang
Company Secretary

7 September 2017