

RESPONSE TO QUERY RAISED BY SINGAPORE EXCHANGE SECURITIES TRADING LIMITED (“SGX-ST”)

In response to the query raised by the SGX-ST on 4 March 2019 with regards to the Full Year Financial Statement Announcement for the year ended 31 December 2018 which was released on 28 February 2019, 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:

We refer to the Company’s announcement of its Full Year Financial Statements for the year ended 31 December 2018 (“FY2018”) on 28 February 2019 (“Announcement”). In the Income Statement, “Administrative expenses” increased 58% from \$7.5 million to \$11.9 million in FY2018. In Note 3 on page 4, the Company explained that Administrative expenses increased mainly due, inter alia, to (i) compensation for work stoppage of \$1.7 million in connection with the litigation with the main contractor of Dali San Teh Xing Real Estate Co., Ltd (“DLSTX”); and (ii) write-down of property under development of \$2.6 million. These pertain mainly to design fees and pre-development costs.

In relation to the Administrative expenses above, please:

- (a) Provide a breakdown of the costs incurred in the \$1.7 million compensation for work stoppage;
- (b) Elaborate why the Company has to write-down \$2.6 million of design fees and pre-development costs if the Company has already re-possessed the construction site. What are these pre-development costs incurred and why do they have to be written off.

The Company’s response:

- (a) Compensation for work stoppage is based on the final judgement delivered by the Higher People’s Court of Yunnan Province (云南省高级人民法院) (the “Court”). The Court ruled that DLSTX to pay its main contractor: (i) approximately RMB3.4 million work stoppage damages for the period from 25 August 2014 to 22 May 2015; and (ii) 40% of the work stoppage damages for the period from 23 May 2015 up to the day of the judgement calculated by RMB10,081 per day.

The breakdown of the costs incurred in the \$1.7 million compensation for work stoppage is as follows:

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From 25 August 2014 to 22 May 2015	686
From 23 May 2015 to 15 September 2018	996
	<u>1,682</u>

- (b) The Group carried out a cursory review of the status of the project after it has repossessed the construction site following the resolution of the litigation with the main contractor. The original development plan of the project was done in 2013. The cursory review assessed the suitability of the original development plan after taking into account, among other things, the current market condition, demand for the various type of residential property and pricing.

As a result, the Group made a write-down of property under development of \$2.6 million pertaining mainly to the design fees and pre-development costs (which include consultation fee, environmental impact assessment fee and construction plan review fee) due to the possible changes required to the original development plan.

BY ORDER OF THE BOARD

Lim Wee Tziang
Company Secretary

6 March 2019