

SUNTAR ECO-CITY LIMITED

(Company Registration No. 200613997H)

(Incorporated in the Republic of Singapore)

CLARIFICATION ON THE ANNOUNCEMENT OF FULL YEARLY RESULTS ENDED 31 DECEMBER 2022

The Board of Directors (the “**Board**”) of Suntar Eco-City Limited (the “**Company**” or together with its subsidiary, the “**Group**”) refers to the announcement made by the Company of its full yearly results ended 31 December 2022 (“**FY2022**”) released to the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 28 February 2023 (Announcement Reference: SG230228OTHRI14D).

The Board wishes to provide the additional information in response to the SGX-ST's queries as follows: -

Query 1:

We note that the Company reported revenue of RMB11.8 million for 2H2022, which is a significant increase when compared to the revenue of RMB3.9 million in 1H2022 and RMB1.9 million in 2H2021. Please explain in detail what resulted in the significant increase in revenue in 2H2022.

Company's Response to Query 1:

The growth in revenue for FY2022 is attributed to the steady expansion of business activity from Fujian Liangye as we integrate Fujian Liangye into the group's bottled water product strategy and streamline operations. As consumers become increasingly health-conscious, the demand for bottled water has continued to rise steadily. Our company has been able to capitalize on this trend by offering high-quality bottled water products that meet the needs and expectations of our customers.

Additionally, there has also been steady growth from lutein related nutrition products due to the increasing awareness among consumers. Studies have shown that lutein can help protect against various age-related eye diseases, making it a popular health supplement among seniors, an important consumer segment in China's aging population.

Finally, compared to the 2H2021 and 1H2022, 2H2022 saw a reduction in the COVID-19 control measures impacting logistics and supply chain in China.

During both 2H2021 and 1H2022, both our customers and suppliers were located in areas with COVID-19 control measures, which impacted logistics and caused disruptions to our normal supply chain operations. However, in 2H2022, while China still implemented relatively strict COVID-19 control measures, our customers and suppliers were located in regions that were less affected by the control measures. Furthermore, these regions also adjusted control measures to ensure logistics can continue running smoothly even during lockdown. As a result, our supply chain and sales channels remained relatively unimpeded, with smoother delivery and sales. This caused most of the sales for FY2022 to be recognized in 2H2022, which resulted in a significant increase compared to 2H2021.

Query 2:

Please provide a breakdown for the cost of sales in 2H2022 and 2H2021 which rose 538% to RMB11.3 million, i.e. higher than the revenue growth of 513%. Please also disclose the nature of material items and explain any material variations.

Company's Response to Query 2:

The revenue in 2H2022 and 2021 both came from the health & nutrition segment.

The gross profit margin was 2% (2H2021: 4%) for nutrition product and 22.52%% for water bottle (2H2021: 18.77%) in 2H2022.

For the bottled water business, the percentage in cost of sales and revenue in 2H2022 (compared to 2H2021) has remained relatively consistent.

As for the trading of health products, the percentage increase in cost of sales is higher than the percentage increase in revenue in 2H2022 (compared to 2H2021) because revenue in 2H2021 included revenue from sales overseas at higher margins. Therefore, the absence of overseas sales in 2022 resulted in a lower profit margin in 2H2022.

<u>Trading of Nutrition product</u>	<u>2H 2022</u>	<u>2H 2021</u>	<u>+ / (-)</u>
	RMB'000	RMB'000	
Sales	10,347	1,296	698%
Procurement cost	(10,110)	(1,249)	709%
<u>Water bottle</u>	<u>2H 2022</u>	<u>2H 2021</u>	<u>+ / (-)</u>
	RMB'000	RMB'000	
Sales	1,483	634	134%
Material cost	(758)	(332)	128%
Process cost	(391)	(183)	114%

Query 3:

We note that share of profit of associate had increased from RMB2.1 million in FY2021 to RMB3.3 million in FY2022. Please elaborate on the factors which resulted in the significant improvement in the performance of the associate, and disclose the identity of the associate and the relevant projects involved.

Company's Response to Query 3:

	North China Pharmaceutical Hebei Huawei Health Industry Co., Ltd		Wuping Hailan Real Estate Development Co., Ltd	
	2022	2021	2022	2021
The Group	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	246,526	172,568	-	-
Profit/(loss) for the year	16,555	8,028	(2,505)	-

Share of profit/(loss) of associate	4,305	2,087	(1,002)	-
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A breakdown of the Group share of profit/loss of associates, net, during the current financial year is as follows:

North China Pharmaceutical Hebei Huawei Health Industry Co., Ltd. (“Huawei”)

Huawei's revenue has increased by 42.86% compared to the FY2021, with profits growing by 106.22% to RMB16.56 million. Huawei's strong performance can be attributed to several reasons. In 2022, Huawei was honored with multiple awards and was selected as a pilot demonstration project for 5G+ healthcare applications by the National Ministry of Industry and Information Technology, becoming the only pharmaceutical enterprise in Hebei Province to be selected.

In addition, Huawei optimized its range of product offerings and actively carried out external cooperation. Products developed in collaboration with GEZ company of Pakistan have been registered and approved for export to 9 countries.

In terms of marketing, Huawei accelerated the increase in revenue of its key product, Lutein, and expanding its online distribution channels.

Hailan Real Estate Development Co., Ltd. (“Hailan”)

Hailan is undertaking a property development project (the “Jiangnan project”) in North Yihao Gongguan, Wuping County, Longyan City, Fujian Province. Hailan commenced pre-sale of properties with strong buyer interest during the current financial year ended 31 December 2022.

Hailan is expected to recognise revenue in 2014 upon handing over the properties to buyers.

Hailan reported a net loss of RMB2.51 million for the year ended 31 December 2022 related to operating expenses incurred.

Query 4:

We note that the Company recorded an impairment of RMB0.91 million on its completed properties for sale. Please disclose:

- (a) the current status of the completed properties for sale, including the take-up rates to-date;
- (b) the basis for the impairment; and
- (c) the reasons that may explain the stagnant sales of the completed properties.

Company's Response to Query 4:

The Lan County Residential project was completed in December 2016, with an approximate saleable area of 10,435 square meters and a leasehold tenure of 70 years.

Property Type	Residential Units	Parking Lots	Commercial Units
Total Units	69	43	10
Units sold till 2022	64	12	-
Take-up Rate	93%	28%	-

Completed properties for sale are stated at the lower of cost and net realisable value. Net realisable value

represents the estimated selling price, less estimated costs of completion and selling expenses. An impairment loss of RMB0.91 million was recognised to write down parking lots below cost to net realisable value.

The reason for the slow sales of parking spaces is that the demand for parking spaces in Wuping, a third-tier city, is not as high as first-tier cities, where parking spaces are considered scarce resources and are relatively easy to sell or rent. The Group did not derive revenue from sales of parking lots during the year ended 31 December 2022. The Group sold one parking lot for the year ended 31 December 2021.

Query 5:

We note in the Statement of Financial Position that there is an increase in the balance of "Associate" under non-current assets by RMB7.3 million to RMB31.3 million in FY2022. Please disclose the amount of "further investment in associate", the details and reason for the further investment, as well as the use of the proceeds by the associate.

It was also disclosed that the increase was due to the growth in the associate's operating performance. Please disclose if any dividends were paid out by the associate due to its operating performance to-date.

Company's Response to Query 5:

The Group's investment in associates comprise North China Pharmaceutical Hebei Huawei Health Industry Co., Ltd. ("Huawei") and Wuping Hailan Real Estate Development Co., Ltd ("Hailan").

The Group's investment in associates comprise North China Pharmaceutical Hebei Huawei Health Industry Co., Ltd. ("Huawei")

On 23 April 2020, the Group acquired 26% equity interest in North China Pharmaceutical Hebei Huawei Health Industry Co., Ltd ("Huawei") via capital contribution of RMB21,260,000. There is no further committed capital contribution to be made by the Group in respect of the investment in Huawei.

Huawei has not declared dividend since the date of the Group's investment in that associate.

Wuping Hailan Real Estate Development Co., Ltd ("Hailan")

On 27 December 2021, the Group through its wholly owned subsidiary, Wuping Lan County Real Estate Development Co., Ltd. ("Wuping Lanjun") together with two unrelated parties established a company, Wuping Hailan Real Estate Development Co., Ltd ("Hailan") with a registered capital of RMB10 million.

Wuping Lanjun made a capital contribution in cash of RMB4 million in FY2022 for its 40% equity interest in Hailan.

There is no further committed capital contribution to be made by Wuping Lanjun related to the investment in Hailan.

The Group's investment in associates has increased by RMB7.3 million to RMB31.3 million as at 31 December 2022 from RMB24 million as at 31 December 2021 due to share of profit of associates of RMB3.3 million, net, and the Group's capital contribution in cash of RMB4 million in FY2022 for its 40% equity interest in Hailan.

Query 6:

It is noted that the Company has a net cash outflow from operating activities of RMB1.7 million and a net profit of RMB0.3 million for the financial year ended 31 December 2022. Please explain why the Company is unable to generate net cash inflow from its operating activities, despite the Company's net profit position for the financial year.

Company's Response to Query 6:

It should be noted that the net profit was mainly derived from the company's share of profit from associates of RMB3.3 million, net. This RMB3.3 million share of profit, a non-cash item, is excluded in calculating cash flow from operating activities. Net cash used in operating activities for the year ended of RMB1.7 million partly stemmed from a RMB6.76 million cash out arising from a decrease in trade payable.

Query 7:

In relation to Note 6.2 on Related Party Transactions, please highlight what are the related party transaction referred to as "disclosed elsewhere in the financial statement", and disclose the nature of the transaction and quantify the amounts.

Company's Response to Query 7:

During the financial year ended 31 December 2022, the Group purchased health and nutrition products of RMB13.18 million from an associate.

Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year was as follows:

The Group	2022	2021
	RMB'000	RMB'000
Directors' fees	276	265

Purchase of health and nutrition product

During the financial year ended 31 December 2022, the Group purchased health and nutrition products of RMB13,182,000 (2021 - RMB8,762,000) from an associate.

Query 8:

In relation to Note 8 on Dividends, we note that the Company stated that no dividends have been recommended in line with the previous financial year practice "that proposed dividends are declared on a full financial year basis". As these results are for the full financial year ended 31 December 2022, the Company is required under paragraph 12 of Appendix 7.2 to elaborate why the Company has not declared any dividends. Please disclose accordingly.

Company's Response to Query 8:

No dividend has been declared or recommended for the financial year ended 31 December 2022 and 31 December 2021 respectively as the Group deems it appropriate to retain cash for its operations.

BY ORDER OF THE BOARD

Dr Lan Weiguang
Non-Independent Non-Executive Chairman

7 March 2023