

**SAN TEH LTD**

(Company Registration No. 197901039W)

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

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In response to the queries raised by the SGX-ST on 25 April 2017 with regards to the Full Year Financial Statement and Dividend Announcement for the year ended 31 December 2016 which was released on 28 February 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:**

It was disclosed that a S\$1.4 million provision was "made in respect of the several legal actions involved by Shanghai San Teh Xing Real Estate Co., Ltd with its tenants and the property management company. Noting that the S\$1.4 million provision is significant when compared to the loss of \$9.0 million, please elaborate on the legal actions and provide a breakdown of the items in the provision of S\$1.4 million.

**The Company's response:****Legal action with eight tenants**

Shanghai San Teh Xing Real Estate Co., Ltd ("SSTX") is in legal disputes with eight of its tenants at San Teh Commercial Plaza (the "Plaza") at Shanghai Anting, under which SSTX has taken legal actions to recover outstanding rentals and claim damages as well as to terminate the respective tenancy agreements. The tenants, on the other hand, have claimed against SSTX for renovation cost and losses suffered on the ground of breach of contract.

Shanghai Jiading People's Court (上海市嘉定区人民法院) (the "Court") has ruled on four of the cases in the first trial that: (i) the respective tenancy agreements are terminated; and (ii) SSTX to pay damages to the four tenants.

On appeal by SSTX, the Shanghai No. 2 Intermediate Court (上海市第二中级人民法院) has ruled that: (i) the above judgement delivered by the Court in the first trial is revoked; and (ii) the four cases are to be sent back to the Court for retrial.

The remaining four other cases are still ongoing.

**Legal action with the property management company ("PMC")**

SSTX engaged a PMC to manage its shopping mall of the Plaza. According to the agreement, PMC would collect utilities and maintenance charges from the tenants on behalf of SSTX. As PMC failed to perform certain duties in accordance to the agreement and refused to return the utilities and maintenance charges collected from the tenants to SSTX, SSTX took legal action against PMC to terminate the agreement and recover the unreturned sum.

PMC has taken legal action against SSTX to counter-claim for the maintenance charges like labour cost and expenses incurred for managing the property.

The Court has dismissed the claims by SSTX to terminate the property management agreement and recover the unreturned sum.

The total claims by the eight tenants and the PMC amounted to S\$4,977,000. Based on the legal advice and the fact of the cases, the Group is of the opinion that the claims are excessive and considers that a provision of S\$1,394,000 is adequate to cover any loss arising from the above legal actions.

The breakdown of the provision is as follows:

|                                                                                       |              |
|---------------------------------------------------------------------------------------|--------------|
|                                                                                       | S\$'000      |
| Provision for litigation and claims in respect of the legal action with eight tenants | 1,051        |
| Provision for litigation and claims in respect of the legal action with the PMC       | 343          |
|                                                                                       | <u>1,394</u> |

**SGX-ST's query 2:**

It was disclosed that lower revenue was recorded "in the PVC pipes and fittings operation". Please explain why revenue from PVC pipes and fittings operations had fallen from S\$15.2 million to S\$10.7 million. What are the significant factors that led to the fall in sales quantity?

**The Company's response:**

Revenue from PVC pipes and fittings operation had fallen from S\$15.2 million to S\$10.7 million due to lower sales quantity and selling price. The significant factors that led to the fall in sales quantity are:

- 1) The Group won fewer projects for supplying pipes and fittings through tendering;
- 2) The Chinese government curbed the infrastructural development;
- 3) The slowdown in economy and construction activities in China; and
- 4) Keener competition.

**SGX-ST's query 3:**

Please provide a discussion, for a reasonable understanding, on the factors that caused a fall in the revenue from (i) San Teh Commercial Plaza at Shanghai Anting; and (ii) Suzhou hotel.

**The Company's response:**

Due to the difficult market conditions for commercial and retail properties, the re-launching of the shopping mall of the San Teh Commercial Plaza in Shanghai Anting (the "Plaza") did not progress as planned. The average occupancy rate of the shopping mall in 2016 was approximately 10% only. As a result, revenue from the Plaza decreased because of the lower occupancy rate of the shopping mall.

The Group has revised its marketing strategy and outsourced the marketing function to a property consulting company to speed up the process of securing new tenants.

Due to the stiff competition, average room rate of the Suzhou hotel had fallen from RMB323 in 2015 to RMB277 in 2016. Hence, revenue from Suzhou hotel decreased in 2016.

The Group has finalised a strategy plan to re-develop the Suzhou hotel. It will be upgraded and repositioned as an integrated family resort.

**SGX-ST's query 4:**

Please elaborate on the ongoing "legal proceedings" that has put the construction of the Dali Heqing project on hold.

**The Company's response:**

Dali San Teh Xing Real Estate Co., Ltd ("DLSTX") is involved in litigation with its main contractor (the "Plaintiff") due to disputes in quality of the construction works. The construction has since been put on hold.

DLSTX has served a notice to the Plaintiff to terminate the construction contract (the "Contract") as the Plaintiff failed to perform certain duties stipulated in the Contract. The Plaintiff is now taking legal action to: (i) contest the validity of the notice to terminate the Contract; (ii) demand outstanding progress payment; and (iii) claim damages arising from the suspension of the construction work.

DLSTX has also filed a countersuit against the Plaintiff to terminate the Contract and recover progress payment that has been overbilled.

Dali Bai Autonomous Prefecture Intermediate People's Court of Yunnan Province (云南省大理白族自治州中级人民法院) (the "Intermediate Court") ruled that: (i) DLSTX and the Plaintiff to continue fulfilling their respective obligations under the existing contracts; (ii) DLSTX to pay RMB5.4 million (approximately S\$1.1 million) work stoppage damages for the period up to 22 May 2015 to the Plaintiff; (iii) DLSTX to pay work stoppage damages from 23 May 2015 up to the day of construction work resumption calculated by RMB10,081 (approximately S\$2,105) per day to the Plaintiff; and (iv) the Plaintiff to pay RMB7.2 million (approximately S\$1.5 million) to DLSTX for the progress payment overbilled.

On the appeal of DLSTX, the Higher People's Court of Yunnan Province (云南省高级人民法院) ruled that: (i) the judgement delivered by the Intermediate Court in the first trial is revoked; and (ii) the case to be sent back to the Intermediate Court for retrial.

**SGX-ST's query 5:**

Please elaborate why the Group "expects its PVC pipes and fittings operation to continue to face challenging business environment", including in which regions of operation and the reasons for the challenges.

**The Company's response:**

The Group manufactures PVC pipes and fittings for use in the building, sewage, water supply and telecommunications sectors. Its products are mainly sold to local government projects such as upgrading of water supply pipes and fitting for the village and the distributors for the construction industry. Its customers are mostly in the Eastern China region.

With the continued weakening of the Chinese economy, the slowdown in construction activities in China, the curbing of infrastructural development by the Chinese government, coupled with the keen competition not abating, the Group expects its PVC pipes and fittings operation to continue to face challenging business environment.

BY ORDER OF THE BOARD

Lim Wee Tziang  
Company Secretary

26 April 2017