

SUNTAR ECO-CITY LIMITED

(Company Registration No. 200613997H)
(Incorporated in the Republic of Singapore)

RESPONSE TO SGX QUERY ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023

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 half year results ended 30 June 2023 (“**FY2023 1H**”) released to the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 14 August 2023 (Announcement Reference: SG230814OTHR973M).

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

Query 1:

Please elaborate on the reasons for the increase in gross profit of only RMB0.2 million even though sales increased 238% or RMB9.4million to RMB 13.4 million.

Company's Response to Query 1:

	FY 2023 1H	FY 2022 1H
(1) Bottled water	RMB	
Revenue	1,323,832.29	793,852.45
Gross profit margin	19%	16%
(2) Lutein product		
Revenue	12,178,739.90	3,159,292.10
Gross profit margin	1.41%	1.96%

The substantial growth in sales can primarily be attributed to the contributions from Health and Nutrition segment, which reported a revenue of RMB 12.31 million in the first half of 2023, representing a remarkable increase of RMB 9.04 million compared to the same period last year. Notably, the surge was led by two key segments.

Firstly, the bottled water segment revenues climbing from RMB 0.79 million to RMB 1.32 million. The gross profit margin from 16% to 19%. However, it's important to note that despite these gains, the contribution of bottled water to the overall growth remains relatively modest.

Secondly, the revenue from lutein products increased from RMB 3.16 million to RMB 12.18 million. Nonetheless, the gross profit margin for this segment declined from 1.96% to 1.41% during the first half of 2023.

The decline in the gross profit margin for lutein products in 1H 2023 can be primarily attributed to two key factors. Firstly, there was a fundamental shift in the nature of the products sold. In 2022, our sales primarily consisted of finished lutein products, whereas in 2023, the majority of our sales were comprised of lutein raw materials. As a general rule, raw materials tend to yield lower gross profit margins compared to finished products.

Secondly, we extended larger sales discounts to our customers in 2023 due to the substantial increase in purchase volumes. This strategic decision was made to accommodate the higher customer demand, and while it impacted profit margins, it significantly contributed to the overall increase in sales.

Query 2:

While revenue increased by 238%, cost of sales by 242% and gross profit by 111%, the Company had indicated n.m. with regards to the % changes.

Please elaborate on why the Company is of the view that these significant changes in % are "not meaningful". Please also kindly quantify and indicate the appropriate % changes/variance for the Company's future financial statements.

Company's Response to Query 2:

Our company considers percentage changes exceeding 100% as "not meaningful." This approach is based on the assessment that such significant percentage changes may be influenced by extraordinary factors or represent outliers that do not provide a meaningful reflection of the underlying trends or performance. Therefore, we do not emphasize percentage changes exceeding this threshold in our reporting.

Query 3:

As the share of profit of associates contributed a profit of RMB1,822,000 to the pre-tax profit of the group of RMB 916,000, please provide a review of the performance of the associated companies' performance, to the extent necessary for a reasonable understanding of the group's business. It should include a discussion of the following:—

- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
- (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

Company's Response to Query 3:

The group recognized a share of RMB 1.82 million, comprising a contribution of RMB 2.30 million from Huawei and a partial offset of RMB 0.48 million from Hailan.

Hebei Huawei Health Industry Co., Ltd (Huawei):

	FY2023 1H
Revenue	137,910,385
Net profit	8,846,788

(a) Revenue Growth:

Revenue reached RMB 137.91 million, up by RMB 15.21 million compared to the 2022 1H.

Growth was driven by the success of the product expansion strategy, with categories like lutein, probiotics, and protein powder. The sales strategy included expanding into new channels and markets. Huawei established 2 city-operating centers, and 3 community stores. Strategic partnerships with government institutions also contributed to sales performance.

(b) R&D Investment:

Invested RMB 5.18 million in R&D, with a focus on innovation in functional foods, health foods, medicinal foods, and special medical foods.

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

	FY2023 1H
Revenue	-
Net loss	-1,195,834.61

The project is in its construction phase and has not yet recognised revenue. In 2023 1H, the company reported a net loss of RMB 1.20 million, compared to RMB 0.50 million loss for 2022 1H. This increase in loss can be attributed to the following factors:

(a) Operational Costs:

Sales expenses increased from RMB 0.22 million to RMB 1.37 million, and administrative expenses rose from RMB 0.03 million to RMB 0.18 million in the first half of 2023. These increases are linked to normal operational costs, including employee expenses and promotional costs, as the project transitioned into full operation in 2023 1H.

(b) Tax Expenses:

In 2023 1H, the company incurred tax expenses, including RMB 0.02 million for land rights tax and RMB 0.06 million for stamp duty. This is in contrast to 2022 1H when only RMB 108.60 in stamp duty was incurred. This increase is due to the project's transition from the preparation phase to operational status, leading to land usage rights acquisition and higher associated taxes. As property sales progress, land rights tax and stamp duty expenses are expected to gradually decrease.

(c) Advances Repayment:

In 2023 1H, Hailan has repaid a total of RMB 61 million in shareholder loans. With the introduction of villas and the ongoing sales of other units, Hailan will continue repaying shareholder loans in the second half of the year.

Query 4:

It is noted that under the Property Development segment, the Company reported zero revenue and a loss of RMB 904,000 under its reportable segment.

(a) Please provide a breakdown of the RMB904,000 losses and the major expenses that resulted in the loss. Please also explain the significant increase in expenses when compared to the zero revenue in 1H2022 that resulted in a prior period loss of RMB 247,000.

(b) Please provide a discussion on the ongoing activities and projects in the Property Development segment and the reasons why there is no income from this segment. Please also disclose the Company's plans and outlook for the next reporting period and the next 12 months with regards to this segment.

Company's Response to Query 4:

(a) Within the RMB 0.90 million loss under property development segment, the majority of this loss, amounting to RMB 0.87 million, resulted from the Xi'an Suntar Eco-City Co., Ltd. (Xi'an Suntar) write-off of receivables owed by Xi'an Ruijin Biological Pharmaceutical Co., Ltd. (Xi'an Ruijin), being dormant, which had been deregistered in February 2023. This write-off is an accounting adjustment resulting from the deregistration, which also generated RMB 0.8 million in other income under unallocated segment. Despite the RMB0.87 million impact on the property segment, contributing to a RMB0.9 million loss in property development, the net impact on the consolidated statements is only RMB0.07 million.

(b) In the Property Development segment, the company is currently engaged in two projects, namely the Lan County Project (四季花园) and the Lanjun Jiangnan (澜郡·江南).

Lan County Project: In 2023 1H, the project did not generate any sales income. The profit in this segment primarily derives from interest income earned on financial products. As of the current date, the sales status for Lanjun is as follows: residential units have a sell-through rate of 92.77%, with 5 units remaining unsold, while commercial units have 10 units unsold, and parking spaces have a sell-through rate of 26.85%, with 10 spaces remaining unsold.

The company plans to continue selling residential units and intends to retain ownership of the parking slots and commercial units as its investment property.

Additionally, Xian Suntar Eco-City Co.,Ltd (Xi'an Suntar) holds land assets and is currently awaiting guidance from national planning authorities to determine the future development direction for this land.

Lanjun Jiangnan Project: The project of the associate company has shown promising presales. However, according to accounting standards, income recognition for real estate projects is contingent upon the completion stage of the project. As of June 2023, the residential units have sold a cumulative total of 162 units, with a sell-through rate of 58.4%. Non-residential units have also sold 162 units, with a sell-through rate of 48%. Overall, the project has achieved a sell-through rate of 55.61%.

The company plans to advance villa sales in 2023 2H.

Query 5:

The Company had disclosed that Hailan is currently in its construction phase and has not yet recognised profits. Please provide details of the Hailan project and the size of the project, the current progress of this project and when construction is expected to complete. Please also disclose how the Company intends to finance the construction costs of this project.

Company's Response to Query 5:

The Hailan project, known as Lanjun Jiangnan, is located in Wuping County, Longyan City, Fujian Province, China. It comprises 251 residential units (including 13 villas), 242 regular parking spaces, 29 civil defense parking spaces, and 21 commercial units.

As of June 30, 2023, the project achieved a cumulative sell-through rate of 55.61%, with 162 residential units and 162 non-residential units sold. As of August 25, the overall sales rate reached 65.74%.

Currently, all units have reached their structural topping-out stage. The project is expected to be accepted by the end of 2024, followed by a gradual revenue recognition process.

To finance construction expenses, Hailan obtained shareholder loans totaling RMB 150 million in early 2022, which have been used to support land acquisition and construction costs during the project's development phase.

Query 6:

The Company had disclosed the repayment of RMB 22.02 million of shareholders' advance by associate. Please disclose the name of the associate and the status of completion of its projects to-date.

Company's Response to Query 6:

The associate in question is Wuping Hailan Real Estate Development Co., Ltd. The repayment of RMB 22.02 million of shareholders' advance was made using prepayments received from presales. Notably, Wuping Hailan is not considered an interested person in this matter.

As for the completion status of Hailan's projects to date:

	Total Units	Units Sold	Units Unsold	Sell-Through Rate
Residential Units	251	162	89	58.40%
Regular Parking Spaces	242	141	101	53.08%
Civil Defense Parking	29	17	12	58.62%
Commercial Units	21	4	17	14.82%
Total	543	324	219	55.61%

BY ORDER OF THE BOARD

Dr Lan Weiguang
Non-Independent Non-Executive Chairman

28 August 2023