

SUNTAR ECO-CITY LIMITED

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

RESPONSES TO QUESTIONS RECEIVED FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RELATION TO THE ANNUAL REPORT 2020

The Board of Directors (the “Board”) of Suntar Eco-City Limited (the “Company” or together with its subsidiary, the “Group”) refers to the announcement dated 15 April 2021 on the Annual General Meeting to be held by way of electronic means on 30 April 2021 (the “Announcement”).

Further to the Announcement, the Board had received several questions from Securities Investors Association Singapore (“SIAS”) posted on 23 April 2021 (“Questions”). The Company and the Board wishes to provide its responses to the Questions as follows:

Question 1:

Would the board/management provide shareholders with greater clarity on the following operational and financial matters? Specifically:

- (i) **Property development (Lan County):** In the chairman’s statement, it was stated that the Lan County residential project was completed in 2016 but further added that the development of the Lan County project was very successful and is expected to continue to contribute to revenue in FY2021. **For the benefit of new and long-standing shareholders, can the CEO provide greater clarity to shareholders on the activities and the prospects of the group’s property segment? Please give a presentation at the AGM and include a holistic overview of the group’s real estate development segment, including the major milestones in the next 12-18 months.**
- (ii) **Huawei Health:** The company stated that it gained access to a wide range of health and nutrition products through its investment in North China Pharmaceutical Hebei Huawei Health Industry Co., Ltd. This allowed the group to build its own health and nutrition sales and trading business in FY2020. Management expects modest growth from this sales and trading business in China for FY2021 due to the intense competition from market incumbents. **Can management help shareholders reconcile the company’s decision to invest in Huawei Health and to go into the trading business when it is fully aware of the intense competition from market incumbents? What is the group’s value proposition in this business? What is the targeted ROI for this new business?**
- (iii) **Bottled Water:** The company first floated the idea of diversifying into bottled water in the FY2017 annual report (financial year ended 31 December 2017). The group has made significant progress in the search for regional partners and expects to market its bottled water product in 2021. **What are the evaluation criteria applied in the search and selection of its partners for this prospective segment? What is the amount invested so far?** In the earlier statement made in the 2017 annual report, the chairman was confident that its product will have a niche competitive advantage compared to the flagship products of incumbent market leaders. **Can management provide shareholders with greater visibility of the product and its unique qualities? What is the targeted ROI of the water business given its unique value proposition for the consumer?**

Company’s Response to Question 1:

- (i) Since the completion of the property development (Lan County) project at 2016, the Company has been consistently releasing its property inventory to the market. As of 27 April 2021, the inventory remaining comprises 5 residential units, 32 parking lots and 10 commercial units. Although the Lan County project had been successful for the Group, the Group views further

development projects in Wuping as no longer being consistent with the Group's overall financial and strategic objectives. This is due to adjustments in local government policies and changes in macroeconomic conditions. Hence, the company has negotiated with the Wuping government for a refund of the deposit in 2016 placed for land use. This was reflected in a RMB18.0 million decrease in Properties under development in 2016.

Meanwhile, the Group have had plans to commercially develop the land parcel that housed Xi'an Reyphon's manufacturing facilities after the completion of the Lan County project. The Group had obtained commercial land use rights for the Xi'an land parcel as early as 2011. Since then, the Group has been monitoring local urban planning development and government policy changes to determine a favorable entry timing into the Xi'an property development market.

In August 2018, the Xi'an government introduced the Xi'an Weihe Ecology Landscape Area into the city's master plan. The government's long term-plans to develop Weihe River into world-class waterfront landscape belt, encompassing ecological, cultural, and tourism functions is a favorable turn of events for the Group's property development segment.

In 2019, the Group discontinued operations pertaining to the pharmaceutical ingredients products segment following shutdown of manufacturing operations in its Xi'an facility due to the tightening of environmental controls.

The Company has since been following up closely regarding the re-development of the Xi'an facilities with the local authorities. While the introduction of the Weihe Ecology Landscape Area into the master plan is a favorable development, it has also introduced delays due to the resulting rezoning that needs to be carried out. This rezoning, and in particular the affected areas of the Xi'an land parcel, needs to be agreed upon by the different government agencies before further commercial development can take place on the Xi'an land parcel.

While the Group has also continued its search for other promising property development projects, the Chinese government has implemented regulatory measures at both the local and national levels to cool off the Chinese property market in recent years. As such, the Group has been cautious in the acquisition of new land parcels for property development. That said, the Group is optimistic and will continue to seek out promising opportunities for the property development segment.

- (ii) The Company had decided to enter the Health and Nutrition business due to favorable market trends. Factors such as growing prevalence of various diseases due to unhealthy eating, rising demand of fortified food products, rising disposable income, and growing health consciousness and demand for nutritional supplements are driving the growth of the global Health and Nutrition industry. In China, an ageing population and increased spending on health is expected to further propel the industry forward.

Despite the intense competition from market incumbents, the Company believes that its investment into Huawei has put the Company in a good position to grow together with this exciting market. Huawei is a subsidiary of North China Pharmaceutical Company (NCPC). NCPC traces its beginnings to China's First Five-Year Plan in 1953 and has since grown into a pharmaceutical company that employs more than 10,000 people with over RMB18 billion in assets and close to RMB10 billion in revenue. NCPC's main business is in the R&D, manufacturing, and sales and distribution of its portfolio of chemical drugs, biological medicine, and health and nutrition products. This portfolio of over 700 products includes antibiotics, semi-synthetic antibiotics, pharmaceutical intermediates, synthetic vitamins, biotechnology products, veterinary and nutraceuticals, etc.

The Company's investment into Huawei, is accompanied by the formation of a strategic partnership between the Company and NCPC in the Health and Nutrition business. This provided the Company access to Huawei's extensive portfolio of Health and Nutrition products, as well as the NCPC brand name. This had allowed the Company was able quickly ramp up trading operations of its Health and Nutrition segment, despite the intense market competition from market incumbents. The Company plans to eventually expand to higher margin direct to consumer distribution channels once its core trading operations have fully established.

- (iii) Since announcing its plans to diversify into bottled water, the Group has actively searched for regional partners. Quality is our top priority. The Group is committed to delivering high quality, healthy and safe bottled water to consumers. The Group recognizes that the safety and quality of our products begins with our regional partners. Partners must meet strict quality control standards in the production and delivery of bottled water products.

As there were no suitable partners previously, there had been no significant capital expenditure by the Group into this segment. The only costs for the Bottled Water segment for the past three years pertain to marketing and sales channel expansion related spending.

The unique qualities of the Group's bottle water product are obtained through the implementation of proprietary nanopurification technology in the production process. Due to ever increasing pollution of the world's water bodies, no water source is free from micro-pollutants and more specifically, organic chemical pollutants. All major bottled water producers in China go to great lengths to ensure that its bottled water product can be safe to drink through implementation of filtration technologies. However, nanopurification has the unique advantage of being capable of retaining beneficial minerals within the water while remove micro-pollutants. The Group believes that its technology first approach to ensuring the quality of its bottled water product is a unique value proposition compared to market incumbents.

Question 2:

On 15 April 2021, the company reported that there are discrepancies between the unaudited and the audited financial statements for the financial year ended 31 December 2020.

This follows similar material adjustments by the company after the finalisation of audit for:

- financial year ended 31 December 2016
- financial year ended 31 December 2017
- financial year ended 31 December 2018
- financial year ended 31 December 2020 (most recent financial year)

The company had replied in 2019 that the material differences led to a net effect on the profit or loss amounting to RMB838,000 while the reclassification of trade and other payables had no impact to the profit or loss, or net equity of the group. This gave the impression that it was business as usual in terms of the company's financial reporting.

- (i) **Has the audit committee (AC) reviewed if it has discharged its duties objectively (Principle 10 of the Code of Corporate Governance 2018)?**
- (ii) **As the lead independent director and audit committee chairman who was formerly a senior partner of Baker Tilly TFW LLP and the former Chairman of Baker Tilly International, Asia Pacific Region with more than 30 years of experience, what is the contribution of Mr Foong Daw Ching in helping the group in ensuring the integrity of the financial statements (including avoiding material differences in the group's financial statements)?**
- (iii) **Has the AC evaluated if the CEO has the necessary financial reporting experience needed for the role?**
- (iv) **What were the efforts by the AC to look for a CFO who would be able to help the group in its financial reporting?**
- (v) **On what basis did the AC justify the adequacy and effectiveness of the company's internal controls and risk management systems?**

Company's Response to Question 2:

- (i) Yes, according to the Corporate Governance Report 2020 on Section C. Accountability and Audit with regards to Audit Committee, the members of the AC, collectively, have expertise or experience in financial management and are qualified to discharge the AC's responsibilities. None of the AC members was a former partner or director of the Company's existing auditing firm (a) within a period of two years commencing on the date of their ceasing to be a partner or director of the auditing firm; and (b) for as long as they have any financial interest in the auditing firm. The Board is of the view that the AC has sufficient financial management expertise and experience to discharge the AC's functions.
- (ii) As the Chairman of the Audit Committee and Lead Independent Director of the Company, Mr Foong would lead the Audit Committee to review the audit plans, and the findings of the auditors and ensure that the Group follows up on auditors' recommendations raised, if any, during the audit process.

For the earlier years mentioned, the Audit of the main subsidiaries in PRC was substantially delayed due to some audit fees matters. In fact, the audit didn't start until after the release of the announcement of the interim results. Although the interim results were not reviewed or audited, in normal circumstances, the AC would have substantial input from the audit so as to ensure all major audit adjustments, if any would had been incorporated in the interim results.

For current financial year, the audit of the subsidiary in PRC was delayed due to the COVID-19 outbreak that prevented the auditors from Singapore to travel to PRC until after February 2021. Also as stated in the explanation to Question 8 of the interim results, the current reported RMB1.7 million for share of profit of associates is based on unaudited figures from Huawei. This is due to the COVID-19 imposed lockdown in Shijiazhuang resulting in a delay in audit procedures.

- (iii) Mr Lan Chunguang was appointed on 19 November 2010 and is responsible for the overall management and strategic development of the Group. He has been the General Manager of the membrane technology division of Sinomem Group since 2009. He has nearly 10 years of general management experience. Mr. Lan started as an Administrative cum Customer Manager with Sutar Membrane Technology (Xiamen) Co., Ltd since 1997. From 2007, he assists its Managing Director to oversee the overall management and day-to-day operations. He holds a Diploma in History from Longyan Teachers' College, Fujian Province, PRC. He has obtained in June 2010 his Master of Business Administration with National University of Singapore.

The Group had planned to Mr Lan Chunguang as CEO to tap into his wealth of management and operational experience. Prior to his appointment, the CEO obtained his MBA from NUS in 2010 to ensure that he has the necessary financial reporting knowledge to meet the requirements of his role.

- (iv) The AC has engaged substantial investors, industry connections, personal contacts, recommendation, and other related channels for the search of a CFO. The candidate we are looking for is one who is able to be based in PRC for substantial part of his duties with the Group. As this is a requirement, we have not been successful in finding such person in Singapore. Although the AC has yet to find a suitable CFO candidate that is available so far, the AC has continued to evaluate if the internal financial team is sufficiently resourced with experienced and qualified staff.
- (v) As per the Company Corporate Governance Report 2020 on Section C. Accountability and Audit, the Board and the AC, reviews the adequacy and effectiveness of the Group's risk management framework and internal controls, to ensure risk management and internal controls are in place. In this aspect, the AC reviews the audit plans, and the findings of the auditors and ensures that the Group follows up on auditors' recommendations raised, if any, during the audit process. The AC guides the Management to check and ensure the adequacy and effectiveness of the internal controls. Based on the internal controls and risk management framework established and maintained by the Group, work performed by the external auditors (to the extent as required by them to form an audit opinion on the statutory financial statements), the

report from the internal auditors, periodic reviews performed by the Management and assurance from the CEO and Finance Director, the Board with the concurrence of the AC, is of the opinion that the Group's internal controls in addressing financial, operational, compliance and information technology controls, and risk management systems during the year are effective and adequate to safeguard its assets and ensure the integrity of financial statements.

At the moment, the overall risk management framework of the Group was collectively monitored by the AC and the Board. The Board will consider the necessity of establishing a separate Board risk committee as and when it deemed expedient.

In addition, as per the Company Corporate Governance Report 2020 on Section C. Accountability and Audit with regards to Audit Committee, the Company has established a whistleblowing policy to enable persons employed by the Group a channel to report any suspected non-compliance with regulations, policies, fraud and/or other matters to the appropriate authority for resolution, without any prejudicial implications to these employees. The AC is vested with the power and authority to receive, investigate and enforce appropriate action when any such non-compliance matter is brought to its attention. As of to-date, there were no reports received through the whistleblowing mechanism.

The Group also has had an internal audit function in place since 2015 and has outsourced an independent audit firm to conduct internal audits for FY2020 to help the Group in evaluating and assessing the adequacy and effectiveness of internal controls and consequently to highlight the areas where control weaknesses exist, if any, and thus improvements could be made.

Question 3:

The board comprises an executive director, a non-executive director (as chairman) and two independent directors.

The company has deviated from Provision 2.2 of the Code of Corporate Governance 2018 which requires independent directors to make up a majority of the board where the chairman is not independent.

While the company is cognisant that it has not met Provision 2.2 of the code, it has yet to reconstitute the board. The company made the following statement in the 2019 annual reports:

The company is actively looking for suitable candidates to on board as independent director of the company. This ensure that a majority of independent directors are made up of the board where the chairman is not independent.

The company repeated the same statement in the 2020 annual report.

- (i) Can the company/board elaborate further on the efforts taken to search for a new independent director? How many candidates were shortlisted and how many were interviewed?**
- (ii) If the company had carried out any interviews, what were the reasons that the candidates were found not to be suitable?**
- (iii) What is the search and nomination process for directors, especially independent directors?**
- (iv) Will the board update shareholders on the near-term plans to appoint an independent director to meet Provision 2.2 of the CG Code 2018?**
- (v) Would the nominating committee be reviewing its effectiveness?**

Company's Response to Question 3:

- (i) The Nominating Committee ("NC") taps on substantial investors, industry connections, personal contacts, recommendation and other related channels for the search of Independent Directors. So far, the NC has yet to shortlist suitable candidates for interviews.
- (ii) No suitable candidates have been shortlisted for interview so far.
- (iii) Potential candidates of the Independent Directors are evaluated based on age, experience, professional skill sets and other relevant criterion for their fit to complement the existing Board structure. As stated above, the NC taps on substantial investors, industry connections, personal contacts, recommendation and other related channels for the search of Independent Directors. So far, the NC has yet to shortlist suitable candidates.
- (iv) The board will update shareholders once there is a suitable candidate for independent director put forth by the NC. Should it be the case that no suitable candidate is found as we approach the end of the transition period for Provision 2.2 of the CG Code 2018, the board will update the shareholders on the measures that will be taken to ensure that Provision 2.2 is met.
- (v) Yes, according to the Company Corporate Governance Report 2020 on Section A. Board Matters with regards to Board Performance, on an annual basis, the NC, in consultation with the Chairman of the Board, will review and evaluate the performance of the Board as a whole, its Board Committees and each Board Member taking into consideration the attendance record, preparedness and participation at the meetings of the Board and Board Committees and also the contribution of each Director to the effectiveness of the Board.

The Board has a formal process for assessing the effectiveness of the Board as a whole, its Board Committees and Board Member with objective performance criteria and contribution of each individual Director to the effectiveness of the Board. The NC had conducted an assessment of the functions and effectiveness of the Board as a whole, its Board Committees and the contribution of each individual Director towards the effectiveness of the Board for FY2020. These assessment reports were recommended by the NC and reviewed by the Board. These assessments also take into consideration both qualitative and quantitative criteria, such as return on equity, success of the strategic and long-term objectives set by the Board and the effectiveness of the Board in monitoring the Management's performance against the goals that had been set by the Board.

By Order of the Board

Dr Lan Weiguang
Non-Independent Non-Executive Chairman

29 April 2021