

SUNTAR ECO-CITY LIMITED

(Company Registration No. 200613997H)

(Incorporated in the Republic of Singapore)

CLARIFICATION ON THE ANNOUNCEMENT OF THE SUBSCRIPTION OF 26% EQUITY INTEREST IN NORTH CHINA PHARMACEUTICAL HEBEI HUawei HEALTH INDUSTRY CO., LTD (华北制药河北华维健康产业有限公司)

The Board of Directors (the “Board”) of Suntar Eco-City Limited (the “Company” or together with its subsidiary, the “**Group**”) refers to the announcement released by the Company of the subscription of 26% equity interest in North China Pharmaceutical Hebei Huawei Health Industry Co., Ltd. (“Huawei”), to the Singapore Exchange Securities Trading Limited (the “SGX-ST”) on 23 April 2020 (Announcement Reference: SG200423OTHRNL5Q).

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

Query 1:

On 23 April 2020, the Company announced that “Xi’an Suntar Eco-city Co., Ltd (formerly known as Xi’an Reyphon Pharmaceutical Co., Ltd), a wholly-owned subsidiary of the Company (“Xi’an Suntar”) have on 22 April 2020 entered into a capital increase agreement (“Agreement”) with North China Pharmaceutical Company (华北制药股份有限公司) (“NCPC”) to subscribe 26% of equity interest in 华北制药河北华维健康产业有限公司 (“Huawei”), a wholly-owned subsidiary of NCPC, with a total consideration of RMB21.3 million”. In relation to the capital increase agreement, please disclose the current capital and how much will the increase in capital be.

Company’s Response to Query 1:

In relation to the capital increase agreement, the total capital increase will be RMB58.37 million, with contributions from NCPC, Xi’an Suntar and Hengshui Baoyun Construction Investment Group (衡水宝云建设投资集团有限公司) (“Baoyun”) amounting to RMB18.31 million, RMB21.26 million and RMB18.80 million respectively.

Pre-transaction, Huawei has a registered capital of RMB10 million, which was entirely funded by NCPC. RMB24.96 million of the aforementioned RMB58.37 million capital increase will be booked into the registered capital, making the post-transaction registered capital RMB34.96 million. The remaining RMB33.41 million will be booked into the capital reserves.

After capital increase to Huawei, Huawei’s registered capital and equity structure are as follows:

Shareholder	Registered capital (RMB'000)	Shareholding percentage (%)
NCPC	17,828	51%
X'an Suntar	9,089	26%
Baoyun	8,038	23%
Total	34,955	100%

Query 2:

The Company disclosed that “NCPC is a publicly traded company on the Shanghai Stock Exchange with 52.66% of shares held by Jizhong Energy and its subsidiaries (冀中能源集团).” Please disclose who owns the balance 47.34% of shares of NCPC.

Company’s Response to Query 2:

The balance 47.34% of shares of NCPC are held by the public. Besides Jizhong Energy and its subsidiaries, the remaining top 15 shareholders comprises various mutual funds such as Central Huijin Asset Management (中央汇金资产管理有限责任公司), Bosera LOF Fund (博时主题行业混合型证券投资基金-LOF), ICBC-Credit Suisse Fund (工银瑞信基金), China Southern Asset Management (南方基金), Yinhua Fund (银华基金), China Asset Management (华夏基金), Zhong Ou Asset Management (中欧基金), GF Fund Management (广发基金), Harvest Fund Management (嘉实基金), Dacheng Fund (大成基金), E Fund Management (易方达基金) and Bosera Asset Management (博时基金).

Query 3:

The Company disclosed that “Huawei is a wholly-owned subsidiary of NCPC. The principal activity of Huawei is to manufacture and distribute health and nutrition products.” Please disclose what kind of health and nutrition products do Huawei manufacture and what brands and to whom are the health and nutrition products distributed to currently. Please also disclose how long Huawei has been in business.

Company’s Response to Query 3:

Huawei was established by NCPC as an independent company in 1998. Huawei’s health and nutrition product line includes vitamin C tablets, multi-vitamin tablets, fish oil capsules, calcium capsules, probiotic powders, protein powders, energy drinks, bottled water, and lutein ester tablets etc.

Huawei currently manufactures, markets and distributes these products under the NCPC (华北制药) brand through distributors across China and through e-commerce channels. Huawei also acts as an OEM/ODM manufacturer for corporate clients.

Query 4:

The Company disclosed that “The Consideration was arrived at after arm’s length negotiations and on a willing buyer willing seller basis after taking into account the valuation report on the equity interest dated 25 September 2019 and issued by 北京中企华资产评估有限责任公司 (the “Valuation Report”), which has been appointed by the Company as the independent property valuer to value the said equity interest.” Please disclose:

- i. What is the valuation and how much is Company paying for the acquisition;
- ii. What is the methodology for the valuation and the major quantitative assumptions used in arriving at the valuation;
- iii. Which valuer had undertaken the valuation;
- iv. What is the qualification and track record of the partner and the valuation firm; and
- v. If the valuation is accredited by the China Appraisal Society.

Company's Response to Query 4:

i. What is the valuation and how much is Company paying for the acquisition;

The valuation of Huawei according to the valuation report is RMB23.34 million. The Company's payment for the acquisition is in line with this valuation.

In the capital increase, NCPC is injecting an additional RMB18.31 million into Huawei. Assuming a pre-transaction valuation of RMB23.34 million, NCPC's total stake post-transaction will amount to RMB41.65 million, while the Xi'an Suntar's and Baoyun's stakes are based on their injection amount of RMB21.26 million and RMB18.8 million respectively. This corresponds to a post-transaction ownership of 51%, 26% and 23% for NCPC, Xi'an Suntar and Baoyun respectively.

ii. What is the methodology for the valuation and the major quantitative assumptions used in arriving at the valuation;

The valuation methodology used to arrive at the valuation was a discount cashflow (DCF) analysis. The DCF analysis conducted by the valuer assumed a WACC of 10.99%, a top line 5-year CAGR growth rate of 20% and gross profit margin of 22% for Huawei.

Within the valuation report, the valuer also conducted an asset-based valuation, arriving at a valuation of RMB23.22 million, which is within a 1% deviation from the valuation of RMB23.34 million obtained from the DCF analysis.

iii. Which valuer had undertaken the valuation;

The valuer that had undertaken the valuation is China Enterprise Appraisals Co., Ltd. (北京中企华资产评估有限责任公司).

iv. What is the qualification and track record of the partner and the valuation firm; and

China Enterprise Appraisals Co., Ltd. ("CEA"), formerly affiliated to the State Commission for Restructuring the Economic System, is a dedicated asset appraisal institution under the Central Government. Incorporated in December 1996, CEA was transformed into a limited liability company with asset valuers as its shareholders after going through restructuring and reorganization in 1999.

CEA has the top qualifications in the asset appraisal industry. Its branches, business departments, and cooperative units are based in Hong Kong and 31 provinces, municipalities and autonomous regions. It has a team of more than 1,000 valuers and several hundred industrial experts, including over 200 certified valuers. So far, there are nearly ten thousand enterprises receiving the appraisal services of CEA, and the total appraised assets have reached more than RMB100 trillion.

CEA is a qualified asset appraiser by the Beijing Municipal Finance Bureau with the Assets Appraisal Qualification Certificate (<http://www.chinacea.com/en/about/certificate.html>).

The lead valuer of this valuation report, Zhao Jianbin ("Mr Zhao"), has 20 years of industry experience and is the General Manager of CEA's Hebei Branch office. He is a registered valuer with the Hebei Province, and was awarded the second "National Excellent Young Certified Public Valuer" (第二届"全国优秀青年注册资产评估师"), "2010 Hebei Excellent Certified Public Valuer" ("2010 年度河北省优秀注册资产评估师"), and

“2012 National Young 54 Medal for Certified Public Accountants” (“2012 年度全国注册会计师行业青年五四奖章”).

Mr Zhao has participated in the valuation of the following projects:

1. COFCO Meat capital increase;
2. Guoxin International Investment Co., Ltd. planned capital increase of CNPC International Co., Ltd;
3. Hebei Hengyin futures brokerage Co., Ltd. equity transfer;
4. Guodian group planned transfer of Guodian Anhui power company to Guodian power;
5. Hebei SASAC planned acquisition of Kailuan Group held by China Cinda and China Huarong;
6. Tianjin Bohai Leasing Co., Ltd. acquisition of Cronos Ltd; and
7. Xiamen Airlines planned acquisition of Hebei Airlines held by Hebei Airlines Group.

v. If the valuation is accredited by the China Appraisal Society.

While China Appraisal Society's scope of operations include occasional inspections of valuation reports conducted by its members, not every valuation report is inspected. Currently, this valuation is not accredited by the China Appraisal Society.

CEA is a managing director unit of China Appraisal Society, Beijing Appraisal Society, CAMRA, China Association of Chief Financial Officers, CMAA, and China Council for International Investment Promotion.

Query 5:

The Company disclosed that “the Consideration shall be satisfied by a refundable deposit placed with the Beijing Equity Exchange (北京产权交易所有限公司) as well as internal sources and bank financing.” Please disclose:

- i. How is the amount of the refundable deposit determined;
- ii. Is it usual for Beijing Equity Exchange, a stock exchange to be holding refundable deposits for its issuers;
- iii. Please provide details of such services provided by Beijing Equity Exchange and what are its obligations and responsibilities; and
- iv. If there will be any further loans to be extended to the investee company or vendor or whether any further investment will be required.

Company's Response to Query 5:

i. How is the amount of the refundable deposit determined;

The amount of the refundable deposit was chosen to ensure participation from only serious bidders. The amount was determined by the Management of NCPC in consultation with NCPC's regulators at the State-owned Assets Supervision and Administration Commission (SASAC) of the Hebei government.

- ii. **Is it usual for Beijing Equity Exchange, a stock exchange to be holding refundable deposits for its issuers;**

Beijing Equity Exchange is not a stock exchange like the Shanghai Stock Exchange or Shenzhen Stock Exchange. Instead, Beijing Equity Exchange is better characterized as an equity transaction platform run by the government for mergers, acquisitions and restructuring of state-owned enterprises.

It is common for Beijing Equity Exchange to hold deposits in escrow to facilitate and smooth, safe and fair transaction process for participants.

- iii. **Please provide details of such services provided by Beijing Equity Exchange and what are its obligations and responsibilities; and**

Matters pertaining to deposits and payment within the transaction process is governed by Beijing Equity Exchange's Client Transaction Capital Settlement Management Regulations (北京产权交易所客户交易资金结算管理办法).

According to the Capital Settlement Management Regulations, Beijing Equity Exchange's responsibilities includes the collection and payment of deposits, transaction amounts as well as any transaction related capital management responsibilities. Beijing Equity Exchange is expected to set up an independent bank account to collect, pay and manage funds related to the transaction. Beijing Equity exchange is to treat information related to the bank account in the strictest confidence and funds are not allowed to be used for other purposes.

- iv. **If there will be any further loans to be extended to the investee company or vendor or whether any further investment will be required.**

No further investment or loans are planned in relation to the capital increase transaction of Huawei.

BY ORDER OF THE BOARD

Dr Lan Weiguang
Non-Independent Non-Executive Chairman

29 April 2020