BUND CENTER INVESTMENT LTD

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RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

Bund Center Investment Ltd (the "**Company**" or "**BCI**" and together with its subsidiaries, the "**Group**") would like to provide its response to the questions raised by Securities Investors Association (Singapore) on 11 April 2023 in relation to the Company's Annual Report for the financial year ended 31 December 2022 ("**Annual Report**"), as follows:

Question 1:

As noted in the chairman's statement, the recent easing of "zero-COVID" restrictions and the scrapping of COVID-19 quarantine rules for entry into China will have a positive impact on the tourism and hospitality industry, and the business and operating environment in China. However, it was noted that it may take some time for business demand activity to return to pre-pandemic levels. The group will continue to adopt "flexible and aggressive business and marketing strategies" to attract potential tenants and retain existing tenants.

For FY2022, the group recorded a lower revenue of $67.6 million with a lower EBITDA of $37.5 million. Leasing income experienced a slight decline to $48.5 million this year, primarily due to the weakening Chinese Renminbi and a lower average leasing rate for the office tower in a competitive environment. The group achieved a higher average annual occupancy of 84.2% for the Bund Center Office Tower.

Hotel revenue fell by 43.0% to $19.1 million this year due to Shanghai city lockdowns in the second and fourth quarters of 2022. Consequently, the hotel operations experienced a reduced occupancy rate of 44.3% and an average room rate of RMB769 in FY2022.

(i) **Could management provide an update on the current situation in Shanghai following the lifting of COVID-19 restrictions in December 2022?**

(ii) **Regarding The Westin Bund Center Shanghai, how is the hotel being positioned by management to take advantage of the recovery, and what is the strategy to capture the expected rebound in events?**

(iii) The group recognised $700,000 in revenue from penalties for early termination of leases (2021: $792,000). **How does management anticipate the hybrid work arrangement will affect the demand for office space in Shanghai? Have there been numerous requests by tenants to downsize their offices or are there any positive developments in the commercial leasing market?**

(iv) **Could management disclose the identity of the anchor tenant at Golden Center in Ningbo, and provide information on the major terms of the contract, as well as whether the lease has already commenced?**

Company's Response to Question 1(i)

China lifted COVID-19 restrictions/ quarantine for international travellers on 8 January 2023. The downgraded COVID measures kick started the economy recovery as Shanghai is now gradually operating as usual.

Below is an update on the current situation in Shanghai:

1. Starting from 31 March 2023, Travel Agencies resume operation of foreign inbound group tourism business. (*Source: The Ministry of Culture and Tourism of China*)

2. Chinese visa and entry policies adjusted: All categories of Chinese visas can be applied for, port visa resumed from 15 March 2023. (*Source: Shanghai Foreign Affairs*).

3. According to Shanghai's tourism data, during the Spring Festival January 2023, over 10 million tourists visited Shanghai and achieved tourism revenue of RMB 16.64 billion. (*Source: Shanghai Municipal People's Government*)

4. During the Qing Ming Festival in April 2023, 23.7 million domestic tourists visited China, an increase of 22.7% compared to 2022; achieved a domestic tourism revenue of RMB 6.52 billion, an increase of 29.1% compared to 2022. (*Source: The Ministry of Culture and Tourism of China*)

5. During the Spring Festival in January 2023, there were 654,000 people entering and exiting Shanghai Pudong International Airport, an increase of 140% compared to the same period last year. (*Source: Shanghai Municipal Office for Port Services & China News*)

Company's Response to Question 1(ii)

The management will continue its strategy to position The Westin Bund Center Shanghai as a leading wellness hotel at the Bund area for both business and leisure travellers. The strategies to capture the expected rebound in the hospitality market include focusing on the hotel's distinctive well-being program and local attractions for both domestic and overseas market; nutritious Eat Well F&B offering, famous Sunday Brunch & Unrivaled Michelin Plate restaurant, flexible meeting venues, experienced culinary team in themed event for both on-site and offsite catering.

Company's Response to Question 1(iii)

The management foresees that it is unlikely that the hybrid work arrangements will affect significantly on the demand for office space in Shanghai especially after the recent easing of "zero-COVID" restrictions. Many companies have resumed their physical presence in the office for the business operation needs and many workers prefer to work in-person as they can interact physically with their colleagues, camaraderie, suppliers, customers and etc. Accordingly, the demand for office space is anticipated to improve gradually this year.

In 2022, there were downsizing of office space by certain tenants who are affected by Shanghai's lock down, the stringent "zero-COVID" restrictions and the COVID-19 quarantine rules for entry into China.

China ended COVID-19 travel restrictions for incoming passengers on 8 January 2023 and with a gradual recovery of market confidence, China's GDP growth is forecast to be 5% - 6% in 2023. However a positive scenario will be driven by relaxations in COVID-19 prevention and control measures and continued opening up of the China economy to the rest of the world, mainly due to a rapid transition from a strict "Dynamic Zero" policy to an essentially "Living with the virus" policy.

The Group is monitoring the developments and adjusting its business strategies on developing domestic and international markets and attract potential tenants and retain existing tenants.

Company's Response to Question 1(iv)

The anchor tenant is 宁波金亿商业发展有限公司 Ningbo Jinyi Commercial Development Co. Ltd. This is a 10-years tenancy agreement which commenced in April 2021.

Question 2:

The company has established an in-house internal audit function, with the Head of Internal Audit's primary reporting line to the audit committee chairman and an administrative line of reporting to the CEO.

The Head of Internal Audit (Monitoring Function) is Lai Foong Nin. The Head of Internal Audit has met the standards set by nationally or internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

The AC is satisfied that the internal audit function is adequately resourced, qualified, experienced, and has appropriate standing within the company. It is also satisfied with the independence, adequacy and effectiveness of the internal audit function.

(i) **Can the company provide information about the size of its in-house internal audit team and its location? Given the extensive travel restrictions in the past 2-3 years, how did the company conduct internal audits during this period?**

(ii) **What were the scope, key findings and recommendations by the internal auditor for FY2022?**

(iii) **What is the level of oversight by the AC on the actions taken by management to follow up on the recommendations?**

Company's Response to Question 2(i)

The in-house internal audit ("IA") team comprises three members who have in-depth knowledge and skills of internal audit standards and best practices, risks, and controls of the business processes; knowledge of information technology controls, organisation's industry and professional certifications. The IA office is located at Bund Center Office Tower, Shanghai, China. The team members based in Shanghai conducted internal audit work during the period where lockdown is lifted in Shanghai.

Company's Response to Question 2(ii)

The IA coverage included business processes of fixed assets management, procurement and payment management, revenue and receivables management, sales/lease and marketing management, cash management, information technology management and enterprise risk management respectively.

The findings raised by IA mainly related to the improvement and/or enhancement of certain policies and procedures of the Group. These were observations highlighted by IA that summarises the areas for improvement, where controls can be strengthened, which were not considered material internal control weaknesses or significant control deficiencies. All recommendations have been agreed upon and accepted by the management. A follow-up review will be carried out by the IA team during the next audit visit.

Company's Response to Question 2(iii)

At the quarterly AC meeting, the AC reviewed the progress of the IA and ensured that follow up actions as recommended by IA have been implemented by the management.

Question 3:

As noted in the corporate governance report, the nominating committee (NC) reviewed a matrix of the composition and skills of the board for FY2022, and considered that diversity could be improved, at least in terms of tenure in the coming year(s), after noting the introduction of the hard tenure limit of nine years for independent directors, as announced by SGX-ST in January 2023.

Both Mr Lim Jun Xiong, Steven and Mr Willy Shee Ping Yah @ Shee Ping Yan have served on the board from September 2009 and February 2010 respectively. Mr Willy Shee Ping Yah @ Shee Ping Yan is also the NC chairman while Mr Lim Jun Xiong, Steven is a member of the NC. Both Mr Lim and Mr Shee have offered to step down no later than the 2024 AGM in April 2024.

In addition, Mr Tan Boon Gin, CEO of SGX RegCo, also noted that the limit on tenure of IDs provides an opportunity for companies to inject new skills, experience and knowledge into their boards, all of which will be invaluable in guiding the business for the long term.

(i) **Has the nominating committee (NC) reviewed the current competency matrix of the board and identified any gaps in skills or competencies that need to be addressed in future director appointments?**

(ii) **Could the board provide an update on the progress made in identifying and appointing new directors?**

(iii) **Can the nomination committee provide shareholders with more detailed information on the search and nomination process? Will the committee consider engaging a third-party search firm or professional organization to broaden the search for potential candidates instead of relying solely on recommendations from directors and management?**

(iv) **In addition, can the NC provide further details on the board evaluation process? What were the key findings from the most recent board evaluation?**

(v) **How does the board ensure that the skills, experience, and expertise of its members remain relevant and up-to-date with the evolving business landscape?**

Company's Response to Question 3(i)

Annually since adoption of the Board Diversity Policy, the NC reviews a matrix of board composition and skills set. The NC has since noted that improvements could be made in terms of age group, tenure and skills set. This will be taken into consideration during the search for new Independent Directors.

Company's Response to Question 3(ii)

The search process for new Independent Directors, is ongoing, in its early stage.

Company's Response to Question 3(iii)

Potential candidates for appointment as Directors are sourced chiefly by way of recommendations or introductions from Directors and Management, although the Company will also consider those coming from external consultants.

When evaluating a shortlisted candidate's suitability for appointment, the NC will carry out interview(s) with the candidate to consider, inter alia, the candidate's competencies, commitment, independence, ability and potential to contribute to the Board's effectiveness and diversity. If the position is for an independent Director, the NC will apply the independence 'test' in its assessment of the potential candidate's independence.

The NC may refer to a comprehensive checklist to assist it to ensure that basic standard criteria as well as the Board Diversity Policy are considered during this process of appointment. The requirement to maintain at least 2 Singapore-resident Independent Directors is also factored in during the selection process.

Company's Response to Question 3(iv)

The annual performance evaluation is on the effectiveness of the Board as a whole, and the individual Director's contribution to the effectiveness of the Board. Evaluation of each Director is on the basis of his or her capacity as a Director, not an evaluation of executive function. Over the years, Management, under supervision of the Board, has continued to deliver strong results in deliverance of its planned strategies.

Company's Response to Question 3(v)

Directors are provided with opportunities to develop and maintain their skills and knowledge at the Company's expense. In this regard, the NC has devised a training programme for Directors, where specific areas of training or seminars may be recommended for Directors to develop / upgrade / refresh their skills.

By Order of the Board
Bund Center Investment Ltd

Frankle (Djafar) Widjaja
Executive Chairman and Chief Executive Officer

19 April 2023