

SUNTAR ECO-CITY LIMITED

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

CLARIFICATION ON THE ANNOUNCEMENT OF ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

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 Annual Report for the financial year ended 31 December 2021 (“**Annual Report**”) released to the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 13 April 2022 (Announcement Reference: SG220413OTHR8P3W).

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

Query 1:

Pursuant to Rule 1207(10C), the annual report must contain the Audit Committee's (“**AC**”) comment on whether the internal audit (“**IA**”) function is independent, effective and adequately resourced. We note that the Company has outsourced its IA function to Xiamen Heyu Certified Public Accountant (“**Xiamen Heyu**”). In this regard:

- (a) Please justify how is Xiamen Heyu suitable to be appointed as internal auditors for the group;
- (b) Please clarify whether Xiamen Heyu has experience undertaking IA engagements for listed companies, as well companies of similar industry and size of operations. Please provide a list of such companies along with the engagement periods;
- (c) Please clarify whether the IA standards applied by Xiamen Heyu comply with the Standards for Professional Practice of Internal Auditing set by The Institute of Internal Auditors; and
- (d) Please substantiate with data to support how the AC arrived at their opinion that the IA function is effective and adequately resourced.

Company's Response to Query 1:

Established in March 2000, Xiamen Heyu Certified Public Accountant (CPA) Ltd. (“**Xiamen Heyu**”) has been in the public accounting services sector for more than two decades. Currently, Xiamen Heyu has a total employment of 26 staff in China , including 10 Certified Public Accountants, 8 Certified Tax Agent, 3 Certified Public Assets Valuer, 1 Senior Accountant, 12 Accountants and 1 economist. Xiamen Heyu has an extensive track record in the business. Over the past 22 years since its inception, Xiamen Heyu have serviced premier clients such as Xiamen CCRE Group (A subsidiary of Xiamen ITG Holding Group Co. Ltd., a Fortune Global 500 company), Xiamen Water Group, Justice Bureau of Xiamen, Xiamen Post and Communication Office, ZhongShan Affiliated Hospital Xiamen University.

As for the internal audit team, both the auditors (Mr Dong Junrong and Mr Niu Yongquan) are Certified Public Accountants of China and have more than 15 years working experience in the audit industry. Mr Dong Junron is also a Certified Tax Agent.

The internal audit procedures performed by Xiamen Heyu for the Company follows the China “Enterprise Internal Control Audit Guide” and the “Practice Standards for Certified Public Accountants of China” which have no material difference from the relevant guidelines in the Standards for Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

With reference to page 29 of the Annual Report, the IA follows closely the standards set by nationally or internationally recognized professional bodies including the Standards for the Professional Practice of Internal Auditing (“**IIA**”) set by The Institute of Internal Auditors.

The AC is of the view that internal auditor is adequately staffed with persons with relevant qualifications and experience and adheres to professional standards including those promulgated by IIA. The AC had conducted a review of the internal audit function and based on its review, it has concluded that the internal audit function is adequately resourced, effective and independent.

Query 2:

Rule 1207(18B)(b) requires the issuer to ensure the identity of the whistleblower is kept confidential. We note on page 28 of the Company's Annual Report that there is no indication on whether the identity of the whistleblower will be kept confidential. Please explain how the Company has complied with this rule.

Company's Response to Query 2:

With reference to Company's whistle blowing policy, the Company has implemented a whistleblowing policy which provides the mechanism for which staff of the Company may, in confidence, raise concerns about possible improprieties of financial reporting or other matters.

Query 3:

Rule 710 requires an issuer to explicitly state, when deviating from the provisions prescribed in the Code of Corporate Governance 2018 (the "**Code**"), an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. We note that the Company had not complied with Provision 2.2 of the Code as independent directors do not make up a majority of the board.

Please elaborate further on the steps taken by the board in finding a suitable Independent Director candidate and the progress to-date. Please specify how many candidates has the board identified and interviewed.

Please also clarify whether the Company has at least 2 independent directors who are resident in Singapore, as required under Rule 221 and if applicable, the period when the Company ceased to comply with this rule.

Company's Response to Query 3:

With reference to page 14 of the Annual Report, although the Chairman of the Board is not independent and the Independent Directors do not make up a majority of the Board, the Board is of the view that there is a strong and independent element on the Board with Independent Directors forming at least half of the Board where the Chairman and the CEO are immediate family members. Matters requiring the Board's approval are discussed and deliberated with participation from each member of the Board and all major decisions are made without any individual influencing or dominating the decision-making process.

Although all the Directors have an equal responsibility for the Group's operations, the role of the Non-Executive Directors is particularly important in ensuring that the strategies proposed and implemented by the Management are constructively challenged, taking into account the long-term success of the Group and interests of the shareholders. The Non-Executive Directors also monitor closely on the performance of the Management in meeting agreed goals and objectives. The Non-Executive Directors are encouraged to meet regularly as and when required without Management present.

The Board believes that there is a good balance of power and authority as all Board Committees are chaired by Independent Directors. The Company will continue to review its Board composition with a view to enhance corporate governance practices and to address changes in the operations.

The Company stays on the lookout for suitable Independent Director candidates. Given the nascent nature of the company's new operations in bottled water as well as health and nutrition, the Company is still in the early stages of its search. The Company aims to ensure that the majority of the board is made up of Independent Directors in the long run.

Pursuant to Rule 221 of the Listing Manual of the SGX-ST, a foreign issuer must have at least two independent directors, resident in Singapore. However, the Company is incorporated in Singapore and it is not considered as a foreign issuer pursuant to the Listing Manual of the SGX-ST.

Query 4:

We note that the Company had not complied with Provision 2.4 of the Code as it has not adopted a board diversity policy.

Please elaborate further on how the current board is effective by setting out the various skills, experience and knowledge for each board member.

Company's Response to Query 4:

With reference to pages 14 and 15 of the Annual Report, although the Company has not adopted the board diversity policy, the Company has embraced all aspects of diversity in the current Board composition and the Board is the progress of establishing the board diversity policy.

The Board consists of respected individuals from different backgrounds whose core competencies, qualifications, skills and experience are extensive and complementary. These include accounting, finance, pharmaceutical, property development, engineering, business and management experience. Key information regarding the directors' academic and professional qualifications and other appointments is set out on pages 6 and 7 of the Annual Report.

Query 5:

We note on page 24 of the Company's Annual Report that the Company reported NIL remuneration paid to the Chairman, the CEO and the key management personnel. Please explain why the remuneration is NIL.

Please also clarify the roles and responsibilities of these individuals and whether there are any other forms of remuneration payment that have not been disclosed in the annual report.

Company's Response to Query 5:

The remuneration paid to the Chairman, Dr Lan Weiguang, and CEO, Mr Lan Chunguang was NIL as both the Chairman and CEO have both voluntarily agreed to receive no compensation or payment of any form for their contribution and work at the Company until the Company's operations are on track. Currently, the Company is in the process of building up its recently started bottled water as well as health and nutrition businesses. Hence, the remuneration for both the Chairman and CEO was NIL.

Please refer to pages 15 and 16 of the Annual Report for the roles and responsibilities of the Chairman and CEO. There were no other key management personnel. There are no other forms of remuneration payment that have not been disclosed in the Annual Report.

Query 6:

On page 33 of the Company's Annual Report, the Company reported that during the financial year under review, there have been no interested person transactions ("IPT") entered into by the Group that requires disclosure pursuant to the Listing Manual of the SGX-ST. However, we note on page 75 that the Company disclosed significant transactions with related parties ("RPTs") for the purchase of health and nutrition product amounting to RMB 8,762,000. Please explain why these RPTs were not disclosed as IPT on page 33.

Company's Response to Query 6:

With reference to page 75 of the Annual Report, during the financial year ended 31 December 2021, the Group purchase health and nutrition products of RMB8,762,000 (the "**Transaction**") from an associate company, North China Pharmaceutical Hebei Huawei Health Industry Co., Ltd ("**Huawei**"), which the Company holds 26% of the share capital in Huawei through its wholly-owned subsidiary, Xi'an Suntar Eco-city Co., Ltd.

In view of the above, Huawei is not considered as interested person under Chapter 9 of the Listing Manual and therefore, the Transaction is not considered as an IPT.

BY ORDER OF THE BOARD

Dr Lan Weiguang
Non-Independent Non-Executive Chairman

29 April 2022