SUNTAR ECO-CITY LIMITED
(Company Registration No. 200613997H)
(Incorporated in the Republic of Singapore)

QUALIFIED OPINION BY INDEPENDENT AUDITORS ON AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Pursuant to Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), the Board of Directors (the "**Board**") of Suntar Eco-City Limited (the "**Company**" or together with its subsidiary, the "**Group**") wishes to announce that the independent auditors of the Company have issued a qualified opinion in their Independent Auditors' Report in respect of: -

(i) Related parties; and
(ii) Impairment of inventories and property, plant and equipment

for the audited financial statements of the Group for the financial year ended 31 December 2016 (the "**Audited Financial Statements**").

Notwithstanding the qualified opinion in the Independent Auditors Report, the Board, with the concurrence of the Audit Committee ("**AC**"), is of the opinion that the Group has made sufficient disclosures with respect to related parties and provision for impairment of inventories and property, plant and equipment is not necessary for the following reasons:

1. Related Parties

The auditors raised the uncertainties over the relationship of the Group's subsidiary, Xi'an Reyphon Pharmaceutical Co., Ltd ("**Xian Reyphon**") in PRC with Customer C due to an employee who has represented himself as a general manager of Xian Reyphon and approved transactions in that capacity. This employee is a shareholder and a legal representative of Customer C. He is also the son of the major shareholder of Customer C.

The Management represented to the AC that this employee is not a key employee of Xian Reyphon. Xian Reyphon did not appoint him as a general manager of the company. The general manager is Mr Lan Chunguang who is also the Group CEO. Mr Lan's appointment as General Manager of Xian Reyphon has been formally approved by the Board of Directors of Xian Reyphon. This employee's role in Xian Reyphon is that of a technical adviser to the manufacturing of products for sales to Customer C. In this respect, the Management does not consider Customer C as a related party to Xian Reyphon.

2. Impairment of inventories and property, plant and equipment

The Group's inventories and property, plant and equipment as at 31 December 2016 of RMB19,720,000 and RMB19,392,000 respectively, included inventory aged between one to two years of RMB3,456,000, inventory aged more than two years of about RMB7,074,000 and plant and equipment not in use of about RMB1.8 million. The auditors were unable to obtain sufficient appropriate audit evidence on the key assumptions used in the estimation of future cash flows, including the feasibility of the Group's future production plans. Consequently, they were unable to determine whether any adjustments to the carrying amounts of inventories and property, plant and equipment were necessary.

The Management represented to AC that all inventories including those aged from one to more than two years were all valued at the lower of cost and net realisable values. The inventories in question are not obsolete and they are still saleable as they are or used as raw materials for manufacturing into final products. Xian Reyphon has just obtained the Good Manufacturing Practices ("**GMP**") Licence in March

2016. As a result, Xian Reyphon has changed its manufacturing strategy from the manufacturing of intermediates to finished products. The sales of finished products have yielded a higher gross profit margin as shown in the income statement. This change in strategy only commenced from April 2016 due to the delay in obtaining the GMP Licence. This resulted in the delay in the production plans. The Management is confident that Xian Reyphon will be able to fully utilise the plant and equipment including those currently not in use. The inventories in question will be used in the manufacturing of the final products. Therefore, the Management maintains that provision for impairment of inventories and property, plant and equipment is not necessary.

Please refer to the attached copy of the Independent Auditors' Report together with an extract of Notes 6 and 26 of the Notes to the Audited Financial Statements.

The Company will issue its Annual Report 2016 which will contain the Financial Statements and the Independent Auditors' Report to its shareholders in due course. Shareholders are advised to read this announcement in conjunction with the Company's Annual Report 2016.

BY ORDER OF THE BOARD

Dr Lan Weiguang
Non-Independent Non-Executive Chairman

8 April 2017