INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

SUNTAR ECO-CITY LIMITED
AND ITS SUBSIDIARIES

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Qualified Opinion

We have audited the consolidated financial statements of Suntar Eco-City Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at December 31, 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 11 to 59.

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 ("the Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at December 31, 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the year ended on that date.

Basis for Qualified Opinion

Related parties

An employee of Xi'an Reyphon Pharmaceutical Co., Ltd ("Xi'an Reyphon"), a subsidiary of the Group, is a shareholder and a legal representative of Customer C referred to in note 26 to the consolidated financial statements for the year 2016. The employee is also the son of the major shareholder of Customer C. The employee presented himself as the general manager and approved transactions using that designation in Xi'an Reyphon in 2016. Transactions between Xi'an Reyphon, Customer C and another Entity in which the major shareholder of Customer C has investments in are described in note 6 to the consolidated financial statements. We were unable to determine if Customer C and the Entity referred to above are related parties of the Group and whether the financial statements, insofar as they are affected by the relationships and transactions, achieve fair presentation.

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. We were unable to obtain sufficient appropriate audit evidence about the carrying amounts of the Group's inventories and property, plant and equipment as at 31 December 2016 because of uncertainties over the key assumptions adopted including those used in the estimation of future cash flows and the feasibility of the Group's future production plans. Consequently, we were unable to determine whether any adjustments to the carrying amounts of inventories and property, plant and equipment were necessary.

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants* and *Accounting Entities (ACRA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis of Qualified Opinion Section above, we are unable to obtain sufficient appropriate evidence on the disclosure of related parties transactions and the impairment of inventories and property, plant and equipment. Accordingly, we are unable to conclude whether or not the other information is materiality misstated with respect to these matters.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Property Held for Sale/Properties Under Development - Valuation of properties under development
(Refer to Note 12 to the consolidated financial statements)

As at 31 December 2016, the Group has a property under development of RMB19,338,000 which included a deposit placed for acquisition of land use right of RMB18,000,000 for the development of Suntar Eco-city. The recoverability timing of the deposit is considered to be a significant risk as the deposit has been placed with the government authorities in Wuping County since 2011 and the Group has not been successful in obtaining the land use rights for the development of Suntar Eco-city. The deposit represented about 12% of the Group's total assets. Significant judgement by management is required in determining the recoverability of the deposit as the ability to recover is based on negotiations between the Group with the government authorities.	We performed procedures to understand management's bases and considerations to determine that the recoverability of for the deposit. The procedures include obtaining confirmation from the Wuping government authority with regard to the deposit placed and meeting representatives of the authority to understand the possible arrangement for the Group to recover the deposits. We understand that there continues to be ongoing negotiations between management and the authorities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

SUNTAR ECO-CITY LIMITED AND ITS SUBSIDIARIES

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

SUNTAR ECO-CITY LIMITED AND ITS SUBSIDIARIES

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Cont'd)

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, except for matters as descried in the Basis of Qualified Opinion Section, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporation incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors' report is Ms. Ong Bee Yen.

Public Accountants and
Chartered Accountants
Singapore

April 7, 2017

EXTRACTED FROM THE NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

6 RELATED PARTY TRANSACTIONS

Some of the Group's transactions and arrangements are with related parties and the effect of these on the basis determined between the parties is reflected in these financial statements. The balances are unsecured, interest-free and repayable on demand and expected to be settled in cash, unless otherwise stated.

Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	Group	
	2016	2015
	RMB'000	RMB'000
Short-term benefits	864	1,019
Post-employment benefits	41	38
Total	905	1,057

During the year, Xi'an Reyphon Pharmaceutical Co., Ltd ("Xi'an Reyphon"), a subsidiary of the Group, recorded the following transactions involving a major customer of the Group that has been referred to as Customer C in note 26 to the financial statements:

a) Sales to Customer C of about RMB3,970,000
b) Payments by Customer C to Xi'an Reyphon of about RMB6,213,000. These receipts were recorded as advance payment from customers.
c) Advance payments from Customer C as of 31 December 2016 of about RMB1,569,000 classified as part of Trade Payables in note 17 to the financial statements.
d) Receipt by Xi'an Reyphon of about RMB4,500,000 from an Entity in which the major shareholder of Customer C has equity interest and payment of RMB4,500,000 by Xi'an Reyphon to Customer C.

An employee of Xi'an Reyphon is a shareholder of Customer C and the legal representative of Customer C. The employee is also related to the major shareholder of Customer C. However, the employee has not been appointed as the general manager of Xi'an Reyphon and therefore is not a key management personnel of Xi'an Reyphon or the Group. The major shareholder of Customer C does not control or exercise significant influence over Xi'an Reyphon or the Group. Management has assessed and determined that Customer C and the Entity are not related parties of the Group.

EXTRACTED FROM THE NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

26 SEGMENT INFORMATION

The Group determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

The Group is organised into business units based on their products and services, based on which information is prepared and reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of performance.

For management purposes, the Group is organised into two segments - "pharmaceutical ingredients products" and "property development". These segments are the basis on which the Group reports its segment information.

The accounting policies of the operating segments are the same as the Group's accounting policies describe in Note 2 to the financial statements. Segment results represent the profits earned by each segment without allocation of central administration costs, independent directors' fees, interest income, foreign exchange gains or losses and finance costs at corporate level.

As the Group's main assets and revenue are in People's Republic of China, accordingly, no geographical segment information is presented.

	Pharmaceutical ingredients products	Property development	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000
2016				
Revenue:				
External customers	20,901	13,998	-	34,899
Result				
Segment result	384	4,705	(1,990)	3,099
Income tax expense				(558)
Profit for the year				2,541
Assets:				
Segment assets	59,858	88,545	-	148,403
Unallocated assets			2,038	2,038
Total assets				150,441
Liabilities:				
Segment liabilities	14,608	7,031	-	21,639
Unallocated liabilities			7,498	7,498
Total liabilities				29,137

26 SEGMENT INFORMATION (cont'd)

In 2015, as the property development segment has not completed any property development, the Group's revenue and loss for the year are mainly from the pharmaceutical ingredients products segment, which is the manufacturing and sale of hormone-type pharmaceutical products.

	Pharmaceutical ingredients products	Property development	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Statement of Financial Position				
2015				
Assets:				
Segment assets	55,707	84,253	-	139,960
Unallocated assets			1,210	1,210
Total assets				141,170
Liabilities:				
Segment liabilities	10,842	6,887	-	17,729
Unallocated liabilities			4,678	4,678
Total liabilities				22,407

Information about major customers

The Group's revenue derived from customers who individually account for 10% or more of the Group's revenue is detailed below:

	2016	2015
	RMB'000	RMB'000
Customer A	8,202	12,229
Customer B	4,103	7,268
Customer C	3,970	4,355