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

CLARIFICATION ON THE ANNOUNCEMENT OF FOURTH QUARTER AND TWELVE MONTHS ENDED 31 DECEMBER 2018

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 Fourth Quarter and Twelve Months ended 31 December 2018 ("**Results Announcement**") released to the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") on 1 March 2019 (Announcement Reference: SG190301OTHRVVMZ).

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

Query 1:

In the Income Statement reported in the Company's Financial Statements for the year ended 31 December 2018 ("**FY2018**") announced on 1 March 2019, Administrative expenses amounted to RMB 10.9 million in FY2018 despite a fall in revenue by 19% to RMB35.8 million. Please provide a breakdown of these items, showing a comparative with the corresponding period in FY2017 and provide a discussion on material items.

Company's Response to Query 1:

(a) A breakdown of Revenue is as follows:-

	FY2018 RMB'000	FY2017 RMB'000	+ / (-) %
Revenue			
Pharmaceutical ingredients products	26,778	32,914	(18.6)
Property development	9,023	11,367	(20.6)
Total revenue	35,801	44,281	(19.2)

(i) Revenue from pharmaceutical ingredients products deceased by 18.6% because the unit selling price and sales volume of our main pharmaceutical ingredients product dropped in FY18 due to the intense market competition.

(ii) Revenue from property development deceased by 20.6% due to less residential units of Lan County residential project were sold in FY18 compared to FY17(13 units in FY18 v.s.20 units in FY17)

(b) A breakdown of Administrative expenses is as follows:-

	FY 2018 RMB'000	FY 2017 RMB'000	+ / (-) %
Staff costs	4,833	3,031	59.5
Depreciation	842	748	12.6
Amortisation	405	405	-
Exchange differences	299	101	n.m.
Research expenses	1,139	3,802	(70.0)
Office expenses	3,429	3,030	13.2
Administrative expenses	10,947	11,117	(1.5)

(i) Staff cost: despite a fall in revenue by 19% in FY2018, the staff cost increased by 59.5% in FY 2018 mainly due to startup and operational cost relating to two new offices which were established in end of FY2017 to seek new property development projects as well as increased marketing activities by the bottle water segment.

(ii) Research expense: Less research expenses incurred since the Group has taken steps to shut down pharmaceutical manufacturing operations due to increased environmental regulations.

(iii) Office expenses: Increased office expenses due to the one-time cost charged to expenses when remaining development cost of RMB0.8 million could not be refunded following the cancellation of the Suntar Eco-city tourism project as stated in the announcement.

Query 2:

In FY2018, the Company reported Other operating expenses amounting to RMB3.0 million. The Company explained that this was due to impairment loss on Property, Plant and Equipment ("**PPE**") of RMB3.0 million. Please explain the reason for the further impairment of RMB3.0 million after the significant impairments already made in FY2017 of RMB11.2 million. To disclose how the valuation of PPE was determined, the methodology used in calculating the fair value, quantify the major assumptions used in the calculation and elaborate whether an independent valuer was appointed for the purpose of the valuation. If not, to provide the AC's views whether they had questioned the assumptions used for the impairments of RMB11.2 million and RMB 3.0 million in FY2017 and FY2018 respectively and are of the view that these are reasonably made.

Company's Response to Query 2:

The impairment loss on PPE of RMB 3.0 million consist of impairment loss on leasehold building RMB2.3 million and impairment loss on Construction-in-progress ("**CIP**") RMB0.6 million. After the impairment loss, the net book value of building and CIP was NIL.

The major assumption used in the calculation is that the current buildings will no longer be used after the Group shut down the pharmaceutical manufacturing operations and repurpose the land for future projects. The CIP related to surveyor's costs incurred in respect of the building for manufacturing use. As such the net book value of the building and CIP were both impaired to NIL.

Given that management has taken steps to shut down the manufacturing operations, an independent valuer was appointed to determine the fair value of the remaining plant and equipment. As at the date of the announcement of our full year result, the valuation has yet to be completed. However, based on management's preliminary assessment of the fair value of the remaining plant and equipment, we are of

the view that no impairment is required as the expected fair value less costs to sell is higher than the carrying value of the plant and equipment.

The impairment of RMB11.2 million made in FY2017 was made on the basis of a five-year cash flow projection since there was no decision taken to shut down manufacturing operations then. The Group carried out the test for impairment of PPE by comparing the recoverable amount with the carrying value of PPE to decide how much to impair. The carrying value was the cost of the item less any accumulated depreciation and impairment. The recoverable amount was the value in use which was measured through a five-year cash flow forecasts based on most recent financial forecasts approved by management.

The calculation of value in use of PPE is based on the following assumptions:

(i) Budgeted revenue and growth rate - Management determined the forecast selling price, quantity and growth rate of 10% to 19% was used for 2018 to 2022 for FY2017 forecast based on latest performance and its expectations of market developments at that time.

(ii) Annual capital expenditure of RMB 0.5 million were predicted.

(iii) Discount rate - The WACC of five listed companies in similar pharmaceutical segment was used for the calculation. The discount rate used in FY2017 was 12.8%.

Query 3:

Despite the fall in revenue of 19% to RMB35.8 million and the net loss incurred by the Company of RMB12.6 million in FY2018, the Company reported that staff costs increased 59.5% to RMB4.8 million. Please provide a breakdown of this amount vs $3.0 million in FY2017 and disclose the reasons for the increase.

Company's Response to Query 3:

As addressed in Query 1, the increase in staff costs were mainly due to startup and operational cost relating to two new offices which were established at the end of FY2017 to seek new property development projects as well as increased marketing activities by the bottle water segment.

Query 4:

In the cash flow statement, the Company reported a cash amount of RMB8.8 million for "Property for Sale". Please provide details of the sale, when the assets were sold and details as required under Listing Rule 1010, whether the ratios under Listing Rule 1006 exceed 20% and if so, whether shareholders' approval under Listing Rule 1014 had been obtained.

Company's Response to Query 4:

We note that the RMB8.8 million reported for "Property for Sale" refers to the cash received from the sales of 13 residential units of Lan County residential project and 6 car park lots, which are a part of Lan County's regular operations.

BY ORDER OF THE BOARD

Dr Lan Weiguang
Non-Independent Non-Executive Chairman

8 March 2019