CONTINUOUS INNOVATION

STAR PHARMACEUTICAL LIMITED
Annual Report 2017

CONTENTS

VISION

To be a leader in the Pharmaceutical industry in The People's Republic of China.

MISSION

We are dedicated to creating healthier lives through medical innovations which enhance value for our customers, shareholders and employees by curing diseases, easing suffering, extending human life and improving the quality of life.

CORPORATE PROFILE

STAR Pharmaceutical (the "Company" or the "Group") was established in 2005 and was listed on the SGX mainboard in February 2006. The Company specialises in the manufacture and sales of both western and TCM-formulated prescription drugs and has a manufacturing facility based in Qionghai City, Hainan Province of People's Republic of China ("PRC").

The Group's broad range of pharmaceutical products include antibiotics, cerebrovascular drugs and cardiovascular drugs, and other specialised drugs manufactured inhouse in various dosages and administration forms from powder injections, lyophilized powder injections, liquid injections to tablets, capsules and granules.

The Group has a well-established, extensive distribution network which supports its sales in the growing China market. These include approximately 420 distributors to hospitals, clinics and pharmacies. The Group also operates 37 liaison offices established in major cities and provinces in the PRC. These liaison offices are responsible for supporting, managing and monitoring our distribution network, and help to control the way our products are handled along the distribution channels until they reach the end customers.

Our intensive Research and Development ("R&D") efforts are backed by an experienced R&D team, complemented by collaborations with research vendors in the PRC.

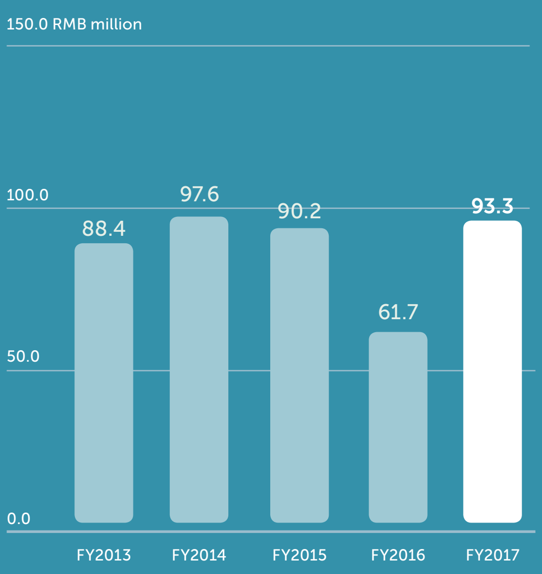
The Group enjoys a reputable standing in the pharmaceutical industry, as a State Level High Tech Enterprise. Over the years, it has received numerous industry awards which recognise the innovative, quality products that the Group brings to the pharmaceutical market.

FINANCIAL HIGHLIGHTS

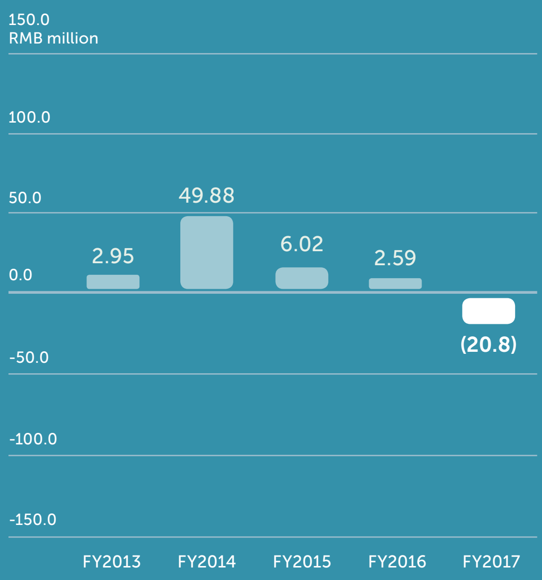
	31 December 2017 (RMB'000)	31 December 2016 (RMB'000)	31 December 2015 (RMB'000)	Change
PROFIT & LOSS ACCOUNTS HIGHLIGHTS				
Revenue	**93,321**	61,678	90,192	51.3%
Gross profit	**52,044**	21,405	30,279	143.1%
Gross margin	**56%**	35%	34%	
Selling & distribution expenses	**37,824**	5,853	8,649	546.2%
(Loss)/profit before tax	**(23,256)**	3,790	8,323	-713.6%
(Loss)/profit for the year	**(20,845)**	2,592	6,024	-904.2%
Net margin	**-22%**	4%	7%	
BALANCE SHEET HIGHLIGHTS				
Non-current assets	**79,282**	86,580	87,390	
Current assets	**112,191**	104,895	90,687	
Current liabilities	**56,763**	35,755	24,700	
Non-current liabilities	**-**	42	121	
Equity attributable to equity holders	**134,710**	155,678	153,256	
CASH FLOWS HIGHLIGHTS				
Cash flows from operating activities	**26,029**	8,276	12,648	
Cash flows (used in) / from investing activities	**(11,197)**	37,244	(23,170)	
Cash flows (used in) / from financing activities	**(12,123)**	11,830	-	
Net increase / (decrease) in cash & cash equivalents	**2,709**	57,350	(10,522)	
Cash & cash equivalents at beginning of the year	**69,670**	9,807	20,329	
Cash & cash equivalents at end of the year	**68,961**	69,670	9,807	
OTHER KEY STATISTICS				
(Loss)/profit per share basic (RMB cents)	**(44.76)**	5.54	12.86	
Net asset value per share (RMB cents)	**289.74**	334.0	327.3	
Weighted average number of shares	46.49m	46.78m	46.82m	
Return on equity	-15%	2%	4%	
Return on assets	-11%	1%	3%	
Current ratio (times)	1.98	2.93	3.67	
Net gearing ratio (times)	-	-	-	

FINANCIAL HIGHLIGHTS

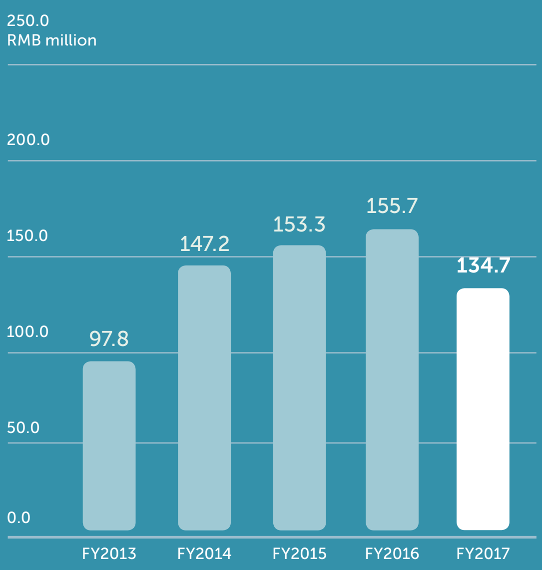
GROUP REVENUE



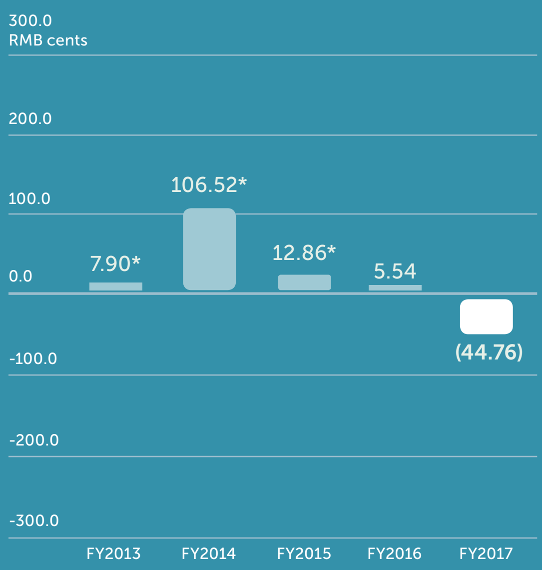
NET PROFIT/(LOSS)



NET ASSET



EARNINGS/(LOSS) PER SHARE



* *As a result of the 2015 Share Consolidation, for the purpose of comparision, the weighted average number of shares for the prior years have been adjusted as the share consolidation had taken place in 2015.*

CORPORATE INFORMATION

BOARD OF DIRECTORS

Xu Zhi Bin *(Executive Chairman)*
Wang Qi *(Executive Director)*
Li Tak Tai Leada *(Non-Executive Director)*
Ng Poh Khoon *(Lead Independent Director)*
Meng Tao *(Independent Director)*

AUDIT COMMITTEE

Ng Poh Khoon *(Chairman)*
Meng Tao
Li Tak Tai Leada

NOMINATING COMMITTEE

Meng Tao *(Chairman)*
Ng Poh Khoon
Li Tak Tai Leada

REMUNERATION COMMITTEE

Ng Poh Khoon *(Chairman)*
Li Tak Tai Leada
Meng Tao

COMPANY SECRETARY

Shirley Tan Sey Liy *(ACS)*

REGISTERED OFFICE

Six Battery Road
#10-01 Singapore 049909
Tel: (65) 6381 6888
Fax: (65) 6381 6899

PRINCIPAL OFFICE

Dalu Town, Qionghai City,
Hainan Province 571425,
People's Republic of China

SHARE REGISTRAR

RHT Corporate Advisory Pte. Ltd.
9 Raffles Place #29-01
Republic Plaza Tower 1,
Singapore 048619
Tel: (65) 6381 6888
Fax: (65) 6381 6899

AUDITORS

Crowe Horwath First Trust LLP
Chartered Accountants
8 Shenton Way
#05-01/02, AXA Tower
Singapore 068811

AUDIT PARTNER – IN–CHARGE

Teo Yen Lin
(since Financial Year Ended 31 December 2017)

CHAIRMAN'S MESSAGE

"The Group sought to optimize its production through the implementation of GMP transformation projects to reduce production costs and improve risk management and control capabilities."

XU ZHI BIN
Executive Chairman

DEAR SHAREHOLDERS,

FINANCIAL PERFORMANCE

For the year ended 31 December 2017, the Group saw revenue increased 51% to RMB93.3 million and gross profit increased 143% to RMB52.0 million due to higher selling prices of drugs under the 'Two-Invoice System'. However, certain policies implemented by the China government affected the Group's operations. These included changing the traditional multi-level distribution chain to a flatter one which resulted in significantly higher selling and distribution expenses; as well as introducing consistency evaluation for generic drugs for injections which led to termination of some research and development ("R&D") projects. As a result, the Group recorded a net loss attributable to equity holders of RMB20.8 million.

OPERATIONAL HIGHLIGHTS

2017 was a challenging year as reforms in the national medical and health system affected production circulation in the pharmaceutical industry as well as the Group's products and production line. To cope with these as well as a decline in the antibiotics injection market, the Group focused on consistency evaluation studies of products, continued R&D and obtaining R&D approval for many upcoming inhalant products, as well as commenced blow-fill-seal ("BFS") production line for packing new inhalant products. The Group also improved sales system by reorganising its sales team, decentralising management of provinces, enhancing management concentration, conducting radiation control based on sales areas as well as boosting market development and service level of its headquarters. These not only contributed to the Group's stronger revenue growth in 2017 but also built a strong foundation for the future.

As part of its corporate social responsibility efforts, the Group became research cooperative partners with College of Life Sciences of Hainan Normal University to offer internships for students. In addition, the Group conducted activities at various government authorities and institutions including Hainan Technician Institute, Haikou College of Economics, Haikou University of Political Science and Law, Haikou Technology and Business University, Hainan Software Profession Institute and many more. From these collaborative efforts, the Group recruited more than 60 promising employees and trainees to bolster its capabilities and competitive edge for the next phase of growth.

Although the Group did not launch any new products in 2017, it started and completed R&D approval for six new products, and will continue to focus on R&D of its inhalant products. In 2018, the Group's new product Acetylcysteine Solution for Inhalation was approved by China Food and Drug Administration ("CFDA") and is expected to be launched in second half of 2018.

CERTIFICATION AND RECOGNITION

The Group was recognised on various fronts during the year. Its Gui Huang Qing Re granules won the Hainan High-tech Product certificate and was also listed on the Drug Catalogue of National Basic Medical Insurance, Work-related Injury Insurance and Maternity Insurance (2017 Version). For manufacturing quality and quality risk controls, the Group's workshops for freeze-dried powder injection, small volume injection (including non-terminal sterilisation) as well as other products underwent many national and provincial inspections and was certified Good Manufacturing Practices ("GMP") by CFDA. In addition, the Group passed the Hainan high-tech enterprise authentication and competitive enterprise authorisation of national intellectual property.

OUTLOOK

Many products under development are expected to be approved by the national pharmaceutical auditor Centre for Drug Evaluation ("CDE") in 2018, including Rocuronium Bromide Injection, Torsaemide for Injection, Fasudil Hydrochloride Injection and Acetylcysteine Solution for Inhalation. Once approved, these products will further widen the Group's product offering and are expected to contribute positively to the Group's growth.

Going forward, the Group will focus on launching new products while improving sales of current products. In addition, the Group will upgrade its various workshops to increase production capacity, reduce production cost and secure new businesses. The Group will also stay nimble and adapt accordingly to changes in the national medical and health policy to take advantage of potential businesses as well as exit from or scale down on unfavourable ones.

In June 2017, the Group was placed on the watch-list of the Singapore Exchange Securities Trading Limited ("SGX-ST") as the Group's share price was below the SGX-ST's minimum trading price criteria. The Group is exploring options and will capitalise on appropriate opportunities to meet the criteria and be removed from the watch-list.

ACKNOWLEDGEMENTS

I would like to take this opportunity to welcome Mr. Wang Qi to the Board who joined us on 1 March 2017. Last but not least, I would like to thank management, staff, business partners, investors and all other stakeholders for their continued support to the Group.

XU ZHI BIN
Executive Chairman

OPERATIONS REVIEW

KEY OPERATIONAL HIGHLIGHTS

In 2017, the Group focused on consistency evaluation studies of products, continued R&D and obtaining R&D approval for many upcoming inhalant products, as well as commenced BFS production line for packing new inhalant products. These were to cope with challenges arising from reforms in the national medical and health system as well as a decline in the antibiotics injection market. The Group also improved its sales system as well as market development and service level of its headquarters.

SEGMENTAL PERFORMANCE

Revenue from other specialised drugs increased 70% to RMB65.5 million due to a rise in revenue from Potassium Sodium Dehydroandrographolide Succinate for Injection, Amoxicillin and Dicloxacillin Sodium Tablets as well as Cobamamide for Injection. Other specialised drugs remained the largest revenue contributor constituting 70% of the Group's revenue in 2017.

Revenue from Antibiotics drugs increased 20% to RMB24.1 million due to a rise in revenue from Azithromycin Aspartate for Injection, Clindamycin Hydrochloride Injection and Sultamicrillin Tosilate Tablets which was partially offset by decrease in sales of Cefepime Hydrochloride for Injection. Antibiotics drugs were the second largest revenue contributor (26%) of the Group's 2017 revenue.

Cardiovascular drugs and cerebrovascular drugs revenue increased 26% to RMB3.7 million mainly due to higher selling price of Vinpocetine for Injection.

R&D

During the year, the Group started and completed R&D approval for six new products including the drug quality study and consistency evaluation of mecobalamin tablets. In addition, four of the Group's products – Rocuronium Bromide Injection, Torsaemide for Injection, Fasudil Hydrochloride Injection and Acetylcysteine Solution for Inhalation – entered the CDE data supplement phase of the national drug trial centre. The Group will focus on R&D of inhalant products as they are expected to contribute positively to revenue.

FUTURE PLANS

Going forward, the Group will focus on launching new products and improving sales of current products. The Group will also upgrade its bulk pharmaceutical chemicals workshop, freeze-dried powder injection workshop, BFS workshop and small-volume injection workshop as well as make other improvements to increase production capacity and reduce production cost. In 2018, the Group's new product Acetylcysteine Solution for Inhalation was approved by CFDA and the Group will promote it at a national drug fair in Shanghai in April. It is expected to be launched in second half of 2018.

The Group will also continue to make necessary adjustments to its R&D, production lines (including reducing production of cephalosporin antibiotics and increasing production of freeze-dried powder injection as well as increasing sales ratio of solid preparation and inhalation preparation), sales strategy and business structure in response to policy changes in the national medical and health system. Apart from operational improvements, the Group will also look to train, recruit and retain talents, particularly for its sales team in order to further boost revenue and clinch new businesses.

BOARD OF DIRECTORS

MR XU ZHI BIN

Executive Chairman

Mr. Xu Zhi Bin ("Mr. Xu") is the Executive Chairman of our Group and he was appointed as our Chairman on 19 November 2012. Mr. Xu has over 22 years' of experience in the pharmaceutical industry specializing in sales and marketing. He is responsible for the Group's operations in strategic planning, corporate daily management and business development. Between 2005 and 2012, he was the General Manager of Beijing Jiuzhou Jikang Pharmaceutical Co., Ltd., where he was responsible for overall strategic planning and direction of the company, including the day-to-day management, financial planning and budgeting, sales and marketing, product development and management, and long-term investment strategy of the company. Prior to that between 2000 and 2005, he was the Director of Sales of Hainan Tongyong Sanyang Pharmaceutical Co., Ltd., where he was responsible for all sales and marketing activities of the company. Between 1996 and 2000, he was the Sales Manager of Shenzhen Jianhua Pharmaceutical Co., Ltd. Mr. Xu graduated from the Capital University of Medical Sciences in 1996 with a Bachelor's Degree majoring in clinical medicine.

MR WANG QI

Executive Director

Mr. Wang Qi ("Mr. Wang") was appointed as our Director on 1 March 2017. Mr. Wang has over 21 years of experience in the pharmaceutical industry specializing in new drug research and development. Prior to joining our Group, from 2001 to 2016, Mr. Wang was the General Manager of Beijing AnKangJiaHe Pharmaceutical Co., Ltd, responsible for the daily operations of the company. From 1996 to 2001, he was the director of research and development of Bei Jing YongAn Pharmaceutical Co., Ltd, responsible for investigation and research before project approval. Prior to that between 1990 to 1996, he was Deputy Director of the technical department of China Information Technology Development Co., Ltd. In 1990, Mr. Wang graduated from Bei Hang University with a Bachelor's Degree majoring in Computer Application.

BOARD OF DIRECTORS

MS LI TAK TAI LEADA
Non-Executive Director

Ms. Li Tak Tai Leada ("Ms. Li") was appointed as our Non-Executive Director on 24 August 2009. She is currently the Managing Director of Grand International Investment (China) Co. Ltd. From December 2006 to August 2015, Ms. Li was the Chief Financial Officer of China Precision Steel, Inc., a company that is engaged in high value-add steel processing and listed on the Nasdaq Capital Market, where she was responsible for overseeing the financial, accounting and administrative matters of the Company. From December 2006 to August 2009, Ms. Li was our part time investor relations consultant where she was responsible for the Company's investor relations and corporate communication matters. Prior to that, from June 2004 to November 2006, Ms. Li was Assistant to Chairman of our Company, in charge of the Group's Initial Public Offering on the SGX-ST and investor relations. From November 2003 to May 2004, Ms. Li was an audit assistant at KPMG, Hong Kong, where she assisted her seniors in carrying out commercial due diligence of target companies located in the PRC. Prior to that, from January 2002 to September 2002, Ms. Li was an Investment Analyst at Suez Asia Holdings (HK) Limited, where she assisted with the research work for various private equity deals. Ms. Li holds a Bachelor of Commerce Degree with dual major in Accounting and Finance from the University of Melbourne in Australia and a Master of Science Degree in Accounting and Finance from the Napier University in the United Kingdom.

MR NG POH KHOON
Lead Independent Director

Mr. Ng Poh Khoon ("Mr. Ng") was appointed as our Independent Director on 27 September 2005 and was appointed as Lead Independent Director on 26 March 2015. He is currently the Project Director with Guangdong Chengde Financial Advisory Co., Ltd and a member of Financial Advisory Committee with the Entrepreneur Capital Management Association of Guangdong Province. Mr. Ng had over 21 years of experiences in auditing, financial management, sales & business development, IR, fund raising and M&A activities. Mr. Ng is currently the Independent Director and the Chairman of the Audit Committee of Nutryfarm International Limited, a company listed on the mainboard of SGX-ST. Mr. Ng is a Chartered Accountant and a member of the Institute of Singapore Chartered Accountants and Singapore Institute of Directors. Mr. Ng is also a fellow member of the Association of Chartered Certified Accountants, UK.

MR MENG TAO
Independent Director

Mr. Meng Tao ("Mr. Meng") was appointed as our Independent Director on 1 January 2015. He is currently the International Trade Consultant of Beijing Jiashi Hongrun Pharmaceutical Co., Ltd. Mr. Meng has over 18 years of experience in the pharmaceutical industry. He was the International Trade Consultant of Haerbin Medisan Pharmaceutical Co., Ltd from September 2003 to October 2013. Prior to that, from July 2002 to August 2003, Mr. Meng was the Japanese department assistant sales director of Su Zhou HaoLiShi Cable Assembly Co., Ltd. From June 2000 to June 2002, Mr. Meng was the International Trade Sales Manager of Beijing Silver Sea Star Ltd. Prior to that, he was the International Trade Sales of Hainan Tongyong Sanyang Pharmaceutical Co., Ltd from June 1997 to May 2000. Mr. Meng graduated from TOKYO COMMUNICATION ARTS in 1996 majoring in International Relations.

EXECUTIVE OFFICERS

MR LUI CHE KIN

Chief Financial Officer

Mr. Lui Che Kin ("Mr. Lui") has more than 20 years of experience in corporate finance, taxation and accounting in various industries. He joined Star Pharmaceutical Limited as Chief Financial Officer ("CFO") on 1 February 2015. Prior to joining our Group, he was the financial controller of Poscelin Company Limited, which is principally engaged in the garment trading and manufacturing business. From April 2007 to September 2012, Mr. Lui was the CFO of Mirach Energy Limited, an energy company listed on mainboard of SGX-ST. Mr. Lui holds a Master's Degree in Business Administration from the University of Ballarat, Australia and is a member of Hong Kong Institute of Certified Public Accountants. He is also a fellow member of the Association of Chartered Certified Accountants, UK, an associate member of the Institute of Chartered Secretaries and Administrators, UK and an associate member of The Hong Kong Institute of Company Secretaries.

MR LI QING MING

General Manager

Mr. Li Qing Ming ("Mr. Li") was appointed as our General Manager on 1 March 2016. Mr. Li is responsible for daily management and oversees the operation of the subsidiary, including supervision, profitability, sales and marketing. Prior to joining us, between 2010 to 2015 Mr Li was the General Manager of Haikou Tianxingjian Pharmaceutical Research Co.,Ltd, involved in daily management and supervision of new drugs' research and development. From 2008 to 2010, he was the Vice General Manager of Hainan Common Kang Li Pharmaceutical Co., Ltd, carrying out the production technology for approximately 40 injections of drug and from 2008 to 2005, he was the Deputy General Manager of Haikou Tianxingjian Pharmaceutical Research Co.,Ltd. Mr. Li holds a Bachelor of Degree in Pharmacy from China Pharmaceutical University.

Corporate Governance

CORPORATE GOVERNANCE

STAR Pharmaceutical Limited **("Company")** was listed on the Official List of the Singapore Exchange Securities Trading Limited **("SGX-ST")** on 15 February 2006. The Board of Directors **("Board")** is committed to maintaining high standards of corporate governance within the Company and its subsidiaries **("Group")** to advance its mission to create value for the Group's customers and shareholders.

This corporate governance statement reports the manner in which the Group has applied the principles and the extent of compliance with the guidelines as set out in the Code of Corporate Governance 2012 **("Code")** to provide the structure through which the objectives of protection of shareholders' interest and enhancement of long term shareholders' value are met.

This report sets out the Group's main corporate governance practices that were in place throughout the financial year or which will be implemented and where appropriate, we have provided explanations for deviation from the Code.

(A) BOARD MATTERS

Board's Conduct of its Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and the Management remains accountable to the Board.

The Board is accountable to the shareholders and oversees the Management of the business and affairs of the Group. Key role of the Board is to protect shareholders' interests and enhance long-term shareholders' value. It sets the overall strategy for the Group and supervises executive management. To fulfil this role, the Board is responsible for setting the strategic direction of the Group, establishing goals for Management, and monitoring the achievement of these goals.

Apart from its statutory responsibilities, the Board's principal functions include the following:

- Approve the Group's corporate and strategic directions;
- Approval of the Group's annual report, quarterly and full-year financial result announcements for release to the SGX-ST;
- Ensure management leadership of high quality, effectiveness and integrity;
- Approve investment and divestment proposals;
- Appointment of Board members and key managerial personnel;
- Ensuring an effective risk management framework is in place;
- Review financial performance and implement financial policies which incorporate risk management, internal controls and reporting compliance;
- Identifying the key stakeholder groups and recognise that their perceptions affect the Company's reputation;
- Set the Company's value and standards, and ensure that obligation to shareholders and other stakeholders are understood and duly met;
- Consider sustainability issues such as environmental and social factors as part of its strategic formulation; and
- Assume responsibility for corporate governance of the Group.

All Directors objectively discharge their duties and responsibilities at all times as fiduciaries and take decisions in the interests of the Company.

The Board has overall responsibility for putting in place a framework of good corporate governance in the Group, including the processes for financial reporting and compliance. All Board members bring their independent judgment, diversified knowledge and experience to bear on issues of strategy, performance, resources and standards of conduct.

To facilitate effective management, the Board has delegated certain specific responsibilities to three Board Committees, namely the Audit Committee **("AC")**, Nominating Committee **("NC")** and Remuneration Committee **("RC")** (collectively, **"Board Committees"**) each of which has its own written terms of reference which are reviewed on a regular basis. The Board accepts that while these Board Committees have the authority to examine particular issues and will report back to the Board with their decisions and recommendations, the ultimate responsibility for the final decision on all matters lies with the entire Board.

Formal Board meetings are held at least four times a year to approve the quarterly and full year results announcements and to oversee the business affairs of the Group and approve any financial or business strategies or objectives. The schedule of all the Board Committees meetings for the calendar year is usually given to all the

CORPORATE GOVERNANCE

Directors well in advance. The Board is free to seek clarification and information from Management on all matters within their purview. Where necessary, additional Board meetings are held to deliberate on urgent substantive matters. The Company's Constitution provides for telegraphic and video conference meetings.

The attendances of the Directors at the Board meetings and Board Committees meetings held during the financial year ended 31 December 2017 **("FY2017")** are disclosed as follows:

Name of Director	Board		Audit Committee		Nominating Committee		Remuneration Committee	
	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Xu Zhi Bin	4	4	5	5*	1	1*	1	1*
Wang Qi (1)	4	3	5	4*	1	1*	1	1*
Gu Yan (2)	4	1	5	1*	1	1*	1	1*
Ng Poh Khoon	4	4	5	5	1	1	1	1
Li Tak Tai Leada	4	3	5	3	1	0	1	0
Meng Tao	4	4	5	5	1	1	1	1

* By invitation
(1) Mr. Wang Qi was appointed as Executive Director on 1 March 2017.
(2) Mr. Gu Yan was resigned as Executive Director on 1 March 2017.

The Board has adopted a set of Guidelines setting forth on matters that require their approval. Matters which are specifically reserved to the Board for decision are those involving a conflict of interest of a substantial shareholder of a Director, acquisitions, disposal of assets, operating budgets and capital expenditure, corporate or financial restructuring, share issuances, declaration of dividends and other matters which require Board's approval as specified under the Company's interested person transaction procedures.

The Directors are also updated regularly with changes to the SGX-ST listing rules, risk management, corporate governance, insider trading and the key changes in the relevant regulatory requirements and financial reporting standards and the relevant laws and regulations to facilitate effective discharge of their fiduciary duties as Board or Board Committees members.

New releases issued by the SGX-ST and Accounting and Corporate Regulatory Authority **("ACRA")** which are relevant to the Directors are circulated to the Board. The Company Secretary informed the Directors of upcoming conferences and seminars relevant to their roles as Directors of the Company. Annually, the external auditors update the AC and the Board on the new and revised financial reporting standards that are applicable to the Company or the Group.

Appropriate briefing and orientation to the Group's operational facilities in the People's Republic of China **("PRC")** will be arranged for newly appointed Directors to familiarise them with the Group's business operations, strategic directions, Directors' duties and responsibilities and the corporate governance practices. They will also be given opportunities to visit the Group's operational facilities and meet the Management so as to gain a better understanding of the Group's business.

The Directors are encouraged to attend seminars and receive training to improve themselves in the discharge of Directors' duties and responsibilities. Changes to regulations and accounting standards are monitored closely by the Management. To keep pace with such regulatory changes, the Company provides opportunities for ongoing education and training on Board processes and best practices as well as updates on changes in legislation and financial reporting standards, regulations and guidelines from the Listing Manual of the SGX-ST that affect the Company and/ or the Directors in discharging their duties.

Newly appointed Director receives appropriate training, if required. In addition, the Board is provided with regular updates with respect to new laws and regulations in order to adapt to the changing commercial risks relating to the business and operations of the Group. The Management regularly updates and familiarizes the Directors on the business activities of the Company during the Board meetings.

A formal letter of appointment would be furnished to every newly-appointed Director upon their appointment explaining, among other matters, their roles, obligations, duties and responsibilities as a member of the Board.

CORPORATE GOVERNANCE

Board Composition and Guidance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

Presently, the Board comprises of two (2) Executive Directors, one (1) Non-Executive Director and two (2) Independent Directors. There is a strong and independent element on the Board, with Independent Directors making up at least one-third of the Board

Name of Directors	Board	Date of First Appointment	Date of Last Re-Election	Audit Committee	Nominating Committee	Remuneration Committee
Xu Zhi Bin	Executive Chairman	19 November 2012	29 April 2016	-	-	-
Wang Qi	Executive Director	1 March 2017	27 April 2017	-	-	-
Li Tak Tai Leada	Non-Executive Director	24 August 2009	27 April 2017	Member	Member	Member
Ng Poh Khoon	Lead Independent Director	27 September 2005	27 April 2017	Chairman	Member	Chairman
Meng Tao	Independent Director	1 January 2015	30 April 2015	Member	Chairman	Member

Independent Directors

The NC reviews the independence of each Independent Director annually in accordance with the Code's definition of an Independent Director. The NC considers an "independent" Director as one who has no relationship with the Company, its related corporations or its officers that could interfere or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment with a view to the best interests of the Company.

The NC had reviewed the independence of each Independent Director and is of the view that these Directors are independent.

In line with Guideline 2.4 of the Code, the NC had performed a rigorous review to assess the independence of the Independent Director, Mr. Ng Poh Khoon and considers that Mr. Ng Poh Khoon is independent even though he has served on the Board beyond 9 years. The relevant factors that were taken into consideration in determining the independence of Mr. Ng Poh Khoon is set out under Principle 4 in page 18 of this Annual Report.

The Board recognizes the contribution of both Independent Directors who over time, have developed deep insights into the Group's businesses and operations and who are therefore able to provide valuable contributions to the Group.

The Non-Executive and Independent Directors participate actively during Board meetings. The Company has benefited from Management's access to its Directors for guidance and exchange of views both within and outside of the meetings of the Board and Board Committees. The Non-Executive and Independent Directors communicate amongst themselves and with the Company's auditors and Senior Management. When necessary, the Company co-ordinates informal meetings for Non-Executive and Independent Directors to meet without the presence of the Executive Directors and/or Management.

The NC has reviewed the size and composition of the Board. While the Executive Chairman, Mr. Xu Zhi Bin is part of the Management team and is not considered as an Independent Director, the NC and the Board is of the view that the present size and composition of the Board and Board Committees to facilitate effective decision making are appropriate for the nature and scope of the Company's operations taking into account the requirement of the business and the need to avoid undue disruptions from the change in commotion of the Board and Board Committees. It is not necessary to have Independent Directors make up at least half of the Board at present. The Board includes one female director in recognition of the importance and value of gender diversity.

Each Director has been appointed on the strength of his calibre, experience and potential to contribute to the Company and its businesses. The Directors bring valuable insights from different perspectives vital to the strategic interests of the Company.

CORPORATE GOVERNANCE

The Board and Board Committees provide and appropriated balance and diversity of skills, the Directors bring with them a wealth of expertise and experience in areas such as accounting, finance, legal, business or management experience and industry knowledge as well as knowledge of the Company. Its composition enables the Management to benefit from a diverse and object perspective on any issues raised before the Board.

The Board is of the view that its Directors as a group possess the necessary competencies necessary to lead and govern the Company effectively.

Non-Executive Director and Independent Directors exercise no management functions in the Group. Although all the Directors have equal responsibility for the performance of the Group, the role of the Non-Executive Director and Independent Directors is particularly important in ensuring that the strategies proposed by the Management are fully discussed and rigorously examined and take into account the long-term interests of not only the shareholders, but also of the employees, customers, suppliers and the communities in which the Group conducts its business and reviewing the performance of the Management in meeting agreed goals and objectives and monitor the reporting of performance. The NC considers its Non-Executive Directors and Independent Directors to be of sufficient calibre and size and their views to be of sufficient weight such that no individual or small group of individuals dominates the Board's decision-making process.

The Company co-ordinates informal meeting sessions for Independent Directors and Non-Executive Director to meet on a need-basis without the presence of the Management to discuss matters such as the Group's financial performance, corporate governance initiatives, Board processes, succession planning as well as leadership development and the remuneration of the Executive Directors.

Chairman and Chief Executive Officer ("CEO")

Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the Company's business. No one individual should represent a considerable concentration of power.

The Group's Executive Chairman is Mr. Xu Zhi Bin, who is responsible for the day-to-day operations of the Group, as well as monitoring the quality, quantity and timeliness of the flow of information between the Board and the Management. He will ensure that procedures are put in place to comply with the Code.

The responsibilities of the Executive Chairman include:

(1) Scheduling of meetings to enable the Board to perform its duties responsibly while not interfering with the flow of the Group's operations;
(2) Ensuring that Directors receive accurate, timely and clear information, and ensuring effective communication with shareholders;
(3) Ensuring the Group's compliance with the Code;
(4) Monitors communications and relations between the Board and the Management; and
(5) Acting in the best interest of the Group and of the shareholders.

The Company Secretary may be called to assist the Executive Chairman in any of the above.

Although the position of the CEO is still vacant, the Board and the Management are responsible for overseeing the overall management and strategic development of the Group.

The Company has appointed Independent Directors, Mr. Ng Poh Khoon as the Chairman of the Audit Committee and Remuneration Committee and Mr. Meng Tao as the Chairman of the Nominating Committee. Their roles are to enhance the independence of the Board and to assist the Executive Chairman in the discharge of his duties when need arises. They are also available to address shareholders' concerns on the issues that cannot be appropriately dealt with by the Executive Chairman.

The Company is in compliance with the Guideline 3.3 of the Code, where Mr. Ng Poh Khoon has been appointed as the Lead Independent Director of the Company on 26 March 2016, to co-ordinate and to lead the Independent Directors to provide a non-executive perspective and contribute to a balance of viewpoints on the Board. He is the main liaison on Board issues between the Independent Directors and Executive Chairman. He is available to shareholders where they have concerns which contact through the normal channels of the Executive Chairman or Chief Financial Officer has failed to resolve or where such communication is inappropriate.

The Independent Directors, led by the Lead Independent Director, meet amongst themselves without the presence of the other Directors, where necessary and the Lead Independent Director will provide feedback to the Executive Chairman after such meetings.

The Board reviews all major decisions made by the Executive Chairman. The Board is of the view that the current leadership structure is in the best interests of the Group. The decision-making process of the Group would not be unnecessarily hindered as there are sufficient safeguards and checks to ensure that the process of decision-making by the Board is independent and based on collective decisions without any individuals exercising any considerable concentration of power or influence.

CORPORATE GOVERNANCE

Board Membership

Principle 4: There should be a formal and transparent process for the appointment and re-appointment of directors to the Board.

The NC, regulated by a set of written Terms of Reference, comprises two Independent Directors and one Non-Executive Director, including the Chairman who is not directly associated with, any substantial shareholder of the Company.

Nominating Committee

The NC comprises:-

Meng Tao (Chairman)
Ng Poh Khoon
Li Tak Tai Leada

The Board has approved the written terms of reference of the NC, in which its principal functions are:-

(a) Make recommendations to the Board on the appointment of new Executive and Non-Executive Directors;
(b) Review the Board structure, size and composition, having regard the principles of the Code;
(c) Assess nominees or candidates for appointment or election to the Board, determining whether or not such nominee has the requisite qualifications and whether or not he/she is independent;
(d) Put in place plans for succession, in particular, for the Chairman of the Board and Chief Executive Officer of the Group;
(e) Determine, on an annual basis, whether a Director is independent taking into account the circumstances set forth in Guideline 2.1 of the Code and any other salient factors;
(f) Make recommendations to the Board for the continuation in services of any Director who has reached the age of seventy years;
(g) Recommend Directors who are retiring by rotation to be put forward for re-election;
(h) Decide whether or not a director is able to and has been adequately carrying out his duties as a director of the Company, particularly when he has multiple board representations;
(i) Recommend to the Board internal guidelines to address the competing time commitments faced by Directors who serve on multiple boards; and
(j) Assess the effectiveness of the Board as a whole and for assessing the contribution of each individual Director to the effectiveness of the Board on an annual basis.

The NC is tasked with the responsibility for the evaluation of the performance of the Board and each individual Director.

The NC is also responsible for determining annually, the independence of the Independent Directors.

In considering whether an Independent Director who has served on the Board for 9 years is still independent, the Board has taken into consideration the following factors:

(1) The considerable amount of experience and wealth of knowledge that the Independent Director brings to the Company;
(2) The attendance and active participation in the proceedings and decision making process of the Board and Committee Meetings;
(3) Provision of continuity and stability to the new Management at the Board level as the Independent Director has developed deep insight into the business of the Company and possesses experience and knowledge of the business;
(4) The qualification and expertise provides reasonable checks and balances for the Management;
(5) The Independent Director has provided adequate attention and sufficient time has been devoted to the proceedings and business of the Company. He is adequately prepared and responsive and heavily involved in the discussions at the meeting; and
(6) The Independent Director provides overall guidance to Management and act as safeguard for the protection of Company's assets and shareholders' interests.

Based on the above factors and the rigorous review performed by the NC, the NC with the concurrence of the Board has reviewed the ability to exercise independent judgement, views and suitability of Mr. Ng Poh Khoon being Independent Director who has served on the Board beyond 9 years and has determined that Mr. Ng Poh Khoon remains independent. Mr. Ng Poh Khoon abstained from voting on any resolution in respect of his own appointment. In addition, the NC is of the view that Mr. Meng Tao is independent (as defined in the Code) and is able to exercise judgement on the corporate affairs of the Group independent of the Management.

CORPORATE GOVERNANCE

Where a Director has multiple board representation, the NC will consider whether the Director is able to adequately carry out his/her duties as a Director of the Company, taking into consideration the number of listed company board representations and other principal commitments. Despite some of the Directors having other Board representations, the NC is satisfied that sufficient time and attention are being given by the Directors to the affairs of the Company and these Directors are able to and have adequately carried out their duties as Directors of the Company. Currently, the Board has not determined the maximum number of listed Board representations which any Director may hold. The NC and the Board will review the requirement to determine the maximum number of listed Board representations as and when it deemed fits.

In compliance with the Guideline 4.5 of the Code, the Board noted that alternate directors may be appointed for limited period in exceptional cases and alternate directors should be familiar with the Company affairs and appropriately qualified. The appointment of alternate director should be subject to the review of the NC and Board prior to the appointment. There is no alternate director being appointed to the Board during FY2017.

The NC may engage consultants to undertake research on, or assess, candidates applying for new positions on the Board, or to engage such other independent experts, as it considers necessary to carry out its duties and responsibilities. Recommendations for new Directors are put to the Board for its consideration.

New Directors are appointed by way of a Board resolution following which they are subject to re-election at the next Annual General Meeting **("AGM")**.

Pursuant to the Company's Constitution, one-third of the Directors (except for the Managing Director) to retire by rotation at every AGM. Each Director (except for the Managing Director) shall retire at least once every three years.

Each member of the NC shall abstain from voting on any resolutions in respect to his re-nomination as a Director.

The NC has recommended to the Board that Mr. Xu Zhi Bin and Mr. Meng Tao, be nominated for re-election at the forthcoming AGM. The Board had accepted the NC's recommendations.

Mr. Meng Tao, being the Chairman of the NC, who are retiring at the AGM are abstained from voting on the resolution in respect of his re-nomination as a Director of the Company.

In reviewing the nomination of the retiring Directors, the NC evaluates such Director's contribution and performance, such as his attendance at meetings of the Board or Board Committees, where applicable, participation, candour and any special contributions.

The key information regarding the Directors such as academic and professional qualifications, Board Committees served, directorships or chairmanships both present and past held over the preceding three years in other listed companies and other major appointments, whether the appointment is executive or non-executive are set out are set out on page 29 of the Annual Report.

Board Performance

Principle 5: There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each Director to the effectiveness of the Board.

The NC acknowledges the importance of a formal assessment of Board performance and has adopted a formal system of evaluating Board performance as a whole and the contribution of each individual Director. An evaluation of Board performance is conducted annually to identify areas of improvement and as a form of good Board management practice to enhance shareholder value. The results of the evaluation exercise were considered by the NC which then makes recommendations to the Board aimed at helping the Board to discharge its duties more effectively.

All Directors assess the Board as a whole on each of the following:

- Board composition and independence;
- Board role and functioning;
- Information management;
- Managing company performance;
- Managing risk and adversity;
- Developing company leadership;
- Corporate integrity and social responsibility; and
- Direction development and management

In assessing the Board's performance as a whole, both quantitative and qualitative criteria are considered. Such criteria include return on equity and the achievement of strategic objectives.

CORPORATE GOVERNANCE

The Board and the NC have endeavoured to ensure that the Directors appointed to the Board possess the relevant experience, knowledge and expertise critical to the Group's business.

Although the Directors are not evaluated individually, the contribution of each individual Director to the effectiveness of the Board is being assessed by their peers on the Board. The evaluation is based on the following:

- Contribution
- Knowledge and abilities
- Teamwork
- Integrity
- Personal commitment
- Overall effectiveness

The NC had adopted the following annual assessment forms which required the completion by each Director and respective Board Committees' member:

- Board Evaluation Form as a whole
- Individual Director Evaluation Form
- AC Evaluation Form
- NC Evaluation Form
- RC Evaluation Form

(Collectively, **"Annual Evaluation Forms"**)

The completed Annual Evaluation Forms will be collated by the Chairman for review and discussion. The NC focuses on a set of performance criteria which includes the evaluation of the size and composition of the Board, the Board's access to information, Board processes and accountability, Board performance in relation to discharging its principal responsibilities and the Directors' standards of conduct in assessing the Board's performance as a whole. Following the review, the Board is of the view that the Board and its Board Committees operate effectively and each Director is contributing to the overall effectiveness of the Board. No external facilitator was used in the evaluation process.

The NC assessed the contribution of each individual Director to the effectiveness of the Board, the factors taken into consideration with regards to the re-election of Directors for FY2017 are based on their attendance and contributions made at the Board, Board Committees meetings and the Group as a whole. The Chairman accept the assessment and the recommendation of the NC in relation to re-election of Directors.

The NC, having reviewed the performance of the Board as a whole, is of the view that the performances of the Board and individual Director have been satisfactory and met its performance objectives for FY2017. No external facilitator was used in the evaluation process.

Access to Information

Principle 6: In order to fulfill their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

From time to time, the Directors are furnished with detailed information concerning the Group to enable them to be fully aware and understand the decisions and actions of the Management of the Group. The Board has unrestricted access to the Group's records and information. Detailed Board papers are prepared for each Board and Board Committees meeting and are circulated at least three days in advance of each meeting. The Board and Board Committees papers include sufficient information from the Management on financial, business and corporate issues to enable the Directors to be properly briefed on issues to be considered at Board and Board Committees meetings. The Directors are also informed of any material variance between projections and actual results or significant developments or events relating to the Group.

All Directors will have separate and independent access to the Group's senior management and Company Secretary at all times. The Company Secretary or her representative administers attends and prepares minutes of all Board and Board Committees meetings and assists the Chairman of the Board and/or the AC, RC and NC in ensuring that proper procedures at such meetings are followed and reviewed so that the Board and Board Committees function effectively.

The Company Secretary or her representatives' role is to advise the Board on all governance matters, ensuring that legal and regulatory requirements as well as Board policies and procedures are complied with so that the Board functions effectively, and the Company's Constitution and relevant rules and regulations, including requirements of the Companies Act and SGX-ST, are complied with. She also acts as the primary channel of communication between the Company and the SGX-ST.

CORPORATE GOVERNANCE

The appointment and removal of the Company Secretary is subject to the approval of the Board.

Each Director has the right to seek independent legal and other professional advice concerning any aspect of the Group's operations and undertakings in order to fulfill their duties and responsibilities as directors. Any expenses incurred in this aspect shall be borne by the Group.

(B) REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7: There should be formal and transparent procedures for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his own remuneration.

The RC, regulated by a set of written Terms of Reference, comprises of two Independent Directors and one Non-Executive Director as follows:

Remuneration Committee

Ng Poh Khoon (Chairman)
Meng Tao
Li Tak Tai Leada

The RC, which has written terms of reference approved by the Board, performs the following functions:

(a) Recommend to the Board a framework of remuneration and specific remuneration packages for all Directors of the Company;
(b) Review the service contracts of the Executive Directors;
(c) Carry out its duties in the manner that it deems expedient, subject always to any regulations or restrictions that may be imposed upon the RC by the Board of Directors from time to time;
(d) Review and enhancing on the compensation structure to incentive performance base for key executives; and
(e) Ensure that the remuneration packages are comparable within the industry and comparable companies and include a performance-related element coupled with appropriate and meaningful measures of assessing individual executive director's performance.

The annual review of the remuneration packages of all Directors are carried out by the RC to ensure that the remuneration of the Directors and key management personnel commensurate with their performance, giving due regard to the financial and commercial health and business needs of the Group.

Non-Executive Director and Independent Directors are paid at fixed fees as Directors' fees. The recommendation on the Directors' fees are made in consultation with the Chairman of the Board and submitted for endorsement by the entire Board and is subject to shareholders' approval at the AGM.

No Director will be involved in determining his/her own remuneration.

All Executive Directors have service agreements valid for a period of three years commencing from 19 November 2012 and subsequently, are reviewed annually to be in line with the recommendations under the Code. The bonuses of the Executive Directors are based on the performance of the Company. In reviewing the service agreements of the Executive Directors and key management personnel of the Company, the RC will review the Company's obligations arising in the event of termination of these service agreements, to ensure that such service agreements contain fair and reasonable termination clauses which are not overly generous. The RC aims to be fair and avoid rewarding poor performance.

The RC has full authority to engage any external professional advice on matters relating to remuneration as and when the need arises. The expense of such services shall be borne by the Company. During FY2017, there were no remuneration consultants engaged by the Company.

Level and Mix of Remuneration

Principle 8: The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the Directors to provide good stewardship of the Company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than necessary for this purpose.

CORPORATE GOVERNANCE

The Executive Directors and key Senior Management remuneration packages are based on service agreements and their remuneration is determined by having regard to the performance of the individuals, the Group and industry benchmarks. The remuneration package for the Executive Director and key Senior Management staff are made up of both fixed and variable components structured link to corporate and individual performance. The variable component is determined based on the performance of the individual employee as well as the Group's performance after taking into account the risk policies of the Company.

The Company does not have any employee share option scheme or any long-term incentive scheme in place.

Non-Executive Director and Independent Directors are paid Directors' fees of an agreed amount based on their contributions, taking into account factors such as effort and time spent, and the respective responsibilities of the Directors. Directors' fees are recommended by the Board for shareholders' approval at the Company's AGM.

The Company does not use contractual provisions to allow the Company to reclaim incentive components of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company. The Executive Directors owe a fiduciary duty to the Company. The Company should be able to avail itself to remedies against the Executive Directors in the event of such breach of fiduciary duties.

Disclosure on Remuneration

Principle 9: Each company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.

The details of the remuneration paid/payable by the Company to the Directors for FY2017 are approximately as follows:

Name of Director	Financial Year ended 31 December 2017	Financial Year ended 31 December 2016
	S$	S$
Xu Zhi Bin	216,000	218,604
Wang Qi (1)	20,479	-
Gu Yan (2)	-	25,103
Li Tak Tai Leada	36,000	36,000
Ng Poh Khoon	36,000	36,000
Meng Tao	24,575	25,003

A breakdown summary of each individual Director's remuneration, in percentage terms showing the level and mix for FY2017 is shown below:

Remuneration Band and Name of Director	Directors' Fees	Salary	Bonus	Incentive and benefits	Total
	%	%	%	%	%
Below S$250,000					
Xu Zhi Bin	-	100	-	-	100
Wang Qi (1)	100	-	-	-	100
Gu Yan (2)	-	-	-	-	-
Li Tak Tai Leada	100	-	-	-	100
Ng Poh Khoon	100	-	-	-	100
Meng Tao	100	-	-	-	100

Notes:
(1) Mr. Wang Qi was appointed as Executive Director on 1 March 2017.
(2) Mr. Gu Yan was resigned as Executive Director on 1 March 2017.

CORPORATE GOVERNANCE

FY2017, the Company only identified two key management personnel (who are not the Directors or the CEO) and their remuneration for FY2017 (in alphabetical order) are approximately as follows:

Remuneration below S$250,000	Salary	Bonus	Other Benefits	Total
Lui Che Kin	S$77,683	-	-	S$77,683
Li Qing Ming (2)	S$26,720	-	-	S$26,720

The aggregate amount of the total remuneration paid to the Key Management Personnel (who are not Directors or the CEO) for FY 2017 was S$104,403. To maintain confidentiality of staff remuneration matters, and for competitive reasons only their remuneration mix is disclosed as per the table above.

Currently the Company only have two key management personnel (who are not the Directors or the CEO) and the profile of these two key management personnel are provided on page 12 of the Annual Report.

For FY2017, there were no terminations, retirement or post-employment benefits granted to Directors and relevant key management personnel other than the standard contractual notice period termination payment in lieu of service. There were no employees of the Company who was an immediate family member of Directors or the CEO and whose remuneration exceeded S$50,000 during the financial year under review.

(C) AUDIT COMMITTEE

Accountability

Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

The Board is accountable to shareholders for the Management of the Group. The Board updates shareholders with a detailed and balanced explanation and analysis of the Company's performance, position and prospects on a quarterly basis when it releases its results announcements as well as timely announcements of other matters as prescribed by the relevant rules and regulations.

In line with the Listing Manual of SGX-ST, the Board provides a negative assurance statement to the shareholders in respect of the interim financial statements. For the financial year under review, the Executive Chairman and the Chief Financial Officer have provided assurance to the Board on the integrity of the Group's financial statements. The Board would take adequate steps to ensure the compliance with the legislative and regulatory requirements and establishing written policies where appropriate.

The Management is accountable to the Board by providing the Board with the necessary financial information, detailed management accounts of the Group's performance, position and prospects on a quarterly basis for discharge of its duties.

Risk Management and Internal Controls

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that the Management maintains a sound system of risk management and internal controls to safeguard the shareholders' interests and the Company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

The Board is responsible for the overall internal control framework and is fully aware of the need to put in place a system of internal controls within the Group to safeguard shareholders' interests and the Group's assets, and to manage risks. The Board recognizes that no cost effective internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The internal controls in place will address the financial, operational, compliance and information technology risks and the objectives of these controls are to provide reasonable assurance that there are no material financial misstatements or material loss, there are maintenance of proper accounting records, financial information are reliable, and assets are safeguarded.

CORPORATE GOVERNANCE

As the Group does not have a risk management committee, the Board and Management assume the responsibility of the risk management function. The Management is responsible for designing, implementing and monitoring the risk management and internal control systems within the Group. The Management regularly reviews the Group's business and operational activities to identify areas of significant risks as well as appropriate measures to control and mitigate these risks. Any significant matters are highlighted to the Board and the AC for their deliberation.

The Directors have received and considered the representation letter from the Executive Chairman and Chief Financial Officer in relation to the financial information for the year. The Executive Chairman and the Chief Financial Officer have assured the Board that:

(a) The financial records have been properly maintained and the financial statements for FY2017 give a true and fair view in all material respects of the Company's operations and finances; and
(b) The Company's risk management and internal controls systems are operating effectively in all material aspects given its current business environment.

Based on the discussion with and the reports submitted by the external auditors and internal auditors, the discussion with the Management, the Board, with the concurrence of the AC is of the opinion that, the system of risk management and internal controls addressing financial, operational, compliance and information technology risks maintained by the Company and in place throughout FY2017 are adequate and effective.

Audit Committee

Principle 12: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

The AC, regulated by a set of written Terms of Reference, comprises of two Independent Directors and one Non-Executive Director as follows:

Audit Committee

Ng Poh Khoon (Chairman)
Meng Tao
Li Tak Tai Leada

The Board is of the opinion that the members of AC are appropriately qualified to discharge their responsibilities.

The AC has adopted and complied with the principles of corporate governance under the Code in relation to the roles and responsibilities of the AC.

The principal functions of the AC are:-

(a) review with the independent auditor on the audit plan, their evaluation of the system of internal accounting controls, audit report, management letter and the management's response;
(b) review the quarterly, half-year and annual financial statements to ensure integrity before submission to the Board for approval, focusing in particular, on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit on the going concern statement, compliance with accounting standards, compliance with Listing Manual of the SGX-ST and statutory and regulatory requirements;
(c) review annually the scope and results of the audit and its cost effectiveness as well as the independence and objectivity of the independent auditor. Where the auditors also provide non-audit services to the Company, to review the nature and extent of such services in order to balance the maintenance of objectivity and value for money, and to ensure that the independence of the auditors would not be affected;
(d) review any formal announcements relating to the Company's financial performance;
(e) review the scope and effectiveness of the internal audit procedures;
(f) review the adequacy of the Company's internal controls;
(g) review interested person transactions;
(h) meet with the independent auditor without the presence of the Management, at least annually;
(i) review and discuss with the independent auditor, any suspected fraud or irregularity, or suspected infringement of any law, rules or regulations, which has or is likely to have a material impact on the Company's operating results or financial position, and management's response; and
(j) consider the appointment/re-appointment of the independent auditor, the audit fee and matters relating to the resignation or dismissal of the auditors.

CORPORATE GOVERNANCE

The AC has explicit authority to investigate any matters within its terms of reference, full access to and cooperation by the management and full discretion to invite any director or executive officer to attend its meetings and have reasonable resources to enable it to discharge its functions properly.

In July 2010, SGX-ST and ACRA launched the "Guidance to Audit Committees on Evaluation of Quality of Work performed by External Auditors" which aims to facilitate the AC in evaluating the external auditors.

Accordingly, the AC had evaluated the performance of the external auditors based on the key indicators of audit quality set out in the said Guidance.

The AC has full access to and has the co-operation of the Management, and has been given the resources required for it to discharge its function properly. It has full discretion to invite any Director or Executive Officer to attend its meetings.

The AC recommends to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the independent auditors and approves the remuneration of the independent auditors. The AC had recommended to the Board the nomination of the independent auditor, Crowe Horwath First Trust LLP for reappointment at the forthcoming AGM.

The AC will meet with the external auditors and internal auditors without the presence of the Management, as and when necessary, to review the adequacy of audit arrangement, with emphasis on the scope and quality of their audit, the independence, objectivity and observations of the external auditors and internal auditors.

For the year under review, the AC met with the independent auditor separately without the presence of Management and had undertaken a review of all non-audit services provided by the independent auditor and is satisfied with the independence and objectivity of the independent auditor.

The AC reviews the independence and objectivity of the independent auditor annually. During the financial year under review, the AC has reviewed the independence of the independent auditor including the volume of all non-audit services provided to the Group, and is satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the independent auditor.

The AC constantly bears in mind the need to maintain a balance between the independence and objectivity of the independent auditor and the work carried out by the independent auditor based on value-for-money-consideration. During the year under review, the aggregate amount of fees paid to the independent auditor for the audit and non-audit services amounted to S$205,000 and S$2,500 respectively.

The Group has appointed different auditors for its overseas subsidiary for PRC statutory purpose and consolidation purpose. The Board and the AC have reviewed the appointment of different auditors for its subsidiary and were satisfied that the appointment of different auditors would not compromise the standard and effectiveness of the audit of the Group. Accordingly, the AC is satisfied that the Company has complied with the requirements of Rules 712 and 716 of the Listing Manual of the SGX-ST.

The Company has in place a whistle-blowing policy, which provides an avenue for the staff of the Company to gain access to the AC Chairman to raise concerns about improprieties and the independent investigation of such matters by the AC to ensure that:

a) independent investigations are carried out in an appropriate and timely manner;
b) appropriate action is taken to correct the weakness in internal controls and policies which allowed the perpetration of fraud and/or misconduct and to prevent a recurrence; and
c) administrative, disciplinary, civil and/or criminal actions that are initiated following the completion of investigations are appropriate, balance and fair, while providing reassurance that employees will be protected from reprisals or victimisation to whistle blowing in good faith and without malice.

As of to date, there were no reports received through the whistle blowing mechanism.

The AC is kept updated annually or from time to time on any changes to the accounting and financial reporting standards by the external auditors. No former partner or director of the Company's existing auditing firm has acted as a member of the AC.

CORPORATE GOVERNANCE

Internal Audit

Principle 13: The Company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

The Group's internal controls and systems are designed to provide reasonable, but not absolute, assurance to the integrity and reliability of the financial information and to safeguard and maintain the accountability of the assets.

The Board believes in the importance of maintaining a sound system of internal controls to safeguard the interests of the shareholders and the Company's assets. To achieve this, the Company has appointed an internal auditor, UHY Lee Seng Chan & Co. (**"Internal Auditor"**) and has implemented internal reviews, to ensure that the system of internal controls maintained by the Company is sufficient to provide reasonable assurance that the Company's assets are safeguarded against loss from unauthorised use or disposal; transactions are properly authorised and proper financial records are being maintained.

The role of the Internal Auditor is to assist the AC in ensuring that the controls are effective and functioning as intended, to undertake investigations as directed by the AC and to conduct regular in-depth audits of high risk areas.

The AC reviews and approves the hiring, removal and evaluates its outsourced Internal Auditor. The Internal Auditor has unrestricted direct access to the AC and reports to the AC. The Internal Auditor also has unfettered access to all the Company's documents, record, properties and personnel.

The AC is satisfied that the internal audit function is adequately resourced and has appropriate standing within the Company.

The AC is satisfied that the internal audit function is staffed by suitably qualified and experienced professionals with the relevant experience.

The Internal Auditor is a member of the Institute of Internal Auditors Singapore (**"IIA"**). The audit work carried out is guided by the International Standards for the Professional Practice of Internal Auditing (IIA Standards) laid down in the International Professional Practices Framework issued by the IIA.

The AC and the Board have reviewed the Company's risk assessment based on the reports of the Internal Auditor and independent auditors and are assured that adequate internal controls, including financial, operational, compliance and information technology control and risk management, are in place.

The AC would annually review the adequacy and effectiveness of the internal audit function of the Company.

(D) COMMUNICATION WITH SHAREHOLDERS

Shareholders Rights

Principle 14: Companies should treat all shareholders fairly and equitably, and should recognize, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

The Company does not practice selective disclosure. In line with the continuous obligations of the Company under the Listing Manual of the SGX-ST and the Companies Act, Chapter 50, the Board's policy is that all shareholders should equally and on a timely basis be informed of all major developments that impact the Group via SGXNet.

Shareholders of the Company are informed of general meetings through the announcement released to the SGXNet. Shareholders of the Company receive the annual report or circular and notice of general meetings sent to them. These notices are also advertised in a national newspaper. All shareholders are entitled to attend the general meetings. At general meetings, the shareholders are given the opportunity to voice their views and ask the Directors or the Management questions regarding the Company's affairs. Shareholders are also informed on the procedures for the poll voting at the general meetings. If any shareholder is unable to attend, he/she is allowed to appoint up to two proxies to vote on his/her behalf at the meeting through proxy forms sent in advance. The Company's Constitution does not include the nominee or custodial services to appoint more than two proxies.

On 3 January 2016, the legislation was amended, among other things to allow certain members, defined as "Relevant Intermediary" to attend and participate in general meetings without being constrained by the two-proxy requirement. Relevant Intermediary includes corporations holding licenses in providing nominee and custodial services and CPF Board which purchases shares on behalf of the CPF investors.

CORPORATE GOVERNANCE

Principle 15: Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

The Company believes in high standards of transparent corporate disclosure, where there is inadvertent disclosure made to a selected Group, the Company will make the same disclosure publicly to all others as soon as practicable. Communication is made through:-

a) Annual reports are prepared and issued to all shareholders. The Board makes every effort to ensure that the annual report includes all relevant information about the Group, including future developments and other disclosures required by the Singapore Companies Act and Singapore Financial Reporting Standards;
b) Quarterly, half yearly and full year announcements containing a summary of the financial information and affairs of the Group for the period are published through the SGXNet and news releases;
c) Notice and explanatory memorandums for annual general meetings and extraordinary general meetings;
d) Press releases on major developments of the Group; and
e) The Group's website at www.star-pharm.com at which shareholders can access information on the Group. The website provides, inter alia, corporate announcements, press releases, annual reports, and profiles of the Group.

The Company does not practice selective disclosure. Price-sensitive information is first publicly released through SGXNet, before the Company meets with any investors or analysts. All shareholders of the Company will receive the Annual Report with an accompanying notice of AGM by post. The notice of AGM is also published in the newspaper within the mandatory period, the AGM of which is to be held within four months after the close of the financial year.

The Group does not have a formal dividend policy at present. The form, frequency and amount of dividends declared each year will take into consideration the Group's profit growth, cash position, positive cash flow generated from operations, projected capital requirements for business growth and other factors as the Board may deem appropriate. Dividends were not declared or paid for FY2017 as the Company wishes to conserve cash for the future potential development and adequate resources for the ongoing business.

CONDUCT OF SHAREHOLDER MEETING

Principle 16: Companies should encourage greater shareholder participation at general meeting of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the Company.

The shareholders are encouraged to attend the Company's general meetings to ensure a high level of accountability and to stay informed of the Group's strategies and growth plans. Notice of the general meeting is dispatched to shareholders, together with explanatory notes or a circular on items of special businesses (if necessary), at least 14 clear calendar days before the meeting. The Board establish and maintain regular dialogue with shareholders to gather views or inputs and welcomes questions from shareholders who wish to raise issues, either informally or formally before or during the general meetings.

Each item of special business included in the notice of the general meetings will be accompanied by explanation of the effects of a proposed resolution. Separate resolutions are proposed for each substantially separate issue at general meetings.

The Chairman of the AC, NC and RC are normally present and available to address questions relating to the matters under the purview of their respective Board Committees at general meetings. Furthermore, the external auditors are present to assist the Board in addressing any relevant queries raised by the shareholders.

The Company will make available minutes of general meetings to shareholders upon their request.

The Company adheres to the requirements of the Listing Manual, the Code, the Company puts all resolutions at general meetings held after 1 August 2015 are put to vote by poll. The detailed voting results, including the total number of votes cast for or against each resolution tabled, were announced immediately at the general meetings and via SGXNet. With effect from the forthcoming general meeting, the Company will put all resolutions to vote by manual polling.

DEALINGS IN SECURITIES

In compliance with Rule 1207(19) of the Listing Manual of the SGX-ST, the Company has adopted its own internal compliance code pursuant to the SGX-ST's best practices on dealings in securities and these are applicable to all its Officers in relation to their dealings in the Company's securities.

The Company and its Officers are not allowed to deal in the Company's shares during the period commencing two weeks before the announcement of the Company's quarterly results and one month before the announcement of the Company's full year results.

CORPORATE GOVERNANCE

The Directors, Management and executives of the Group are also expected to observe insider trading laws at all times, even when dealing in securities within permitted trading period or they are in possession of unpublished price-sensitive information of the Company and they are not to deal in the Company's securities on short-term considerations.

INTERESTED PERSON TRANSACTIONS

The Group has established procedures to ensure that all transactions with interested persons are reported on a timely manner to the AC and that the transactions are carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders.

The Board and the AC will review all interested person transactions to be entered to ensure that the relevant rules under Chapter 9 of the Listing Manual of the SGX-ST are complied with.

The Group does not have a general mandate for interested person transactions. The aggregate value of the interested person transactions entered into during FY2017 to Rule 907 are as follows:-

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S$100,000)
Hainan Selection Pharmaceutical Co., Ltd.	RMB1,940,000	Nil

The value of interested person transactions of the Group is below 3% of the Group's latest net tangible assets as at 31 December 2017.

MATERIAL CONTRACTS

There have not been contracts, not being contracts entered into in the ordinary course of business, entered into by the Company and its subsidiary during the year under review.

CORPORATE GOVERNANCE

PARTICULARS OF DIRECTORS PURSUANT TO THE CODE OF CORPORATE GOVERNANCE

Name of Director	Academic/ Professional Qualifications	Board Appointment Executive/ Non-executive	Board Committees as Chairman or Member	Directorship Date First Appointed	Date of Last Re-election	Directorships in Other Listed Companies and Other Major Appointments	Past Directorships in Other Listed Companies and Other Major Appointments Over the Preceding 3 Years
Mr. Xu Zhi Bin	Bachelor's Degree majoring in clinical medicine from Capital University of Medical Sciences	Executive Chairman	Chairman of the Board	19 November 2012	29 April 2016	-	-
Mr. Wang Qi	Bachelor's Degree majoring in Computer Application from Bei Hang University	Executive Director	Board member	1 March 2017	27 April 2017	-	-
Mr. Ng Poh Khoon	Chartered Accountant and a member of the Institute of Singapore Chartered Accountants and Singapore Institute of Directors. Fellow member of the Association of Chartered Certified Accountants, United Kingdom	Lead Independent Director	Board member, Chairman of the Audit Committee and Remuneration Committee and member of the Nominating Committee (appointed on 26 March 2015)	27 September 2005	27 April 2017	• Nutryfarm International Limited (formerly known as Lottvision Limited)	• CJ Capital Limited
Ms. Li Tak Tai Leada	Bachelor of Commerce Degree with dual major in Accounting and Finance from the University of Melbourne in Australia. Master of Science Degree in Accounting and Finance from the Napier University in the United Kingdom	Non-Executive Director	Board member, member of the Audit Committee, Nominating Committee and Remuneration Committee	24 August 2009	27 April 2017	-	-
Mr. Meng Tao	Diploma of International Relations from Tokyo Communication Arts.	Independent Director	Board member, Chairman of the Nominating Committee and member of Audit Committee and Remuneration Committee	1 January 2015	30 April 2015	-	-

Consolidated Financial Statements

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

The directors present their statement to the members together with the audited financial statements of STAR Pharmaceutical Limited (the Company) and its subsidiary (the Group) for the financial year ended 31 December 2017 and the statement of financial position of the Company as at 31 December 2017.

In the opinion of the directors,

(a) the statement of financial position of the Company and the consolidated financial statements of the Group as set out on pages 42 to 96 are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 31 December 2017 and of the financial performance, changes in equity and cash flows of the Group for the financial year then ended; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The board of directors has, on the date of this statement, authorised these financial statements for issue.

Directors

The directors of the Company in office at the date of this statement are as follows:

Xu Zhi Bin	Executive Chairman
Wang Qi	Executive Director (appointed on 1 March 2017)
Ng Poh Khoon	Lead Independent Non-Executive Director
Meng Tao	Independent Non-Executive Director
Li Tak Tai Leada	Non-Executive Director

Directors' interests in shares or debentures

According to the register kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Cap. 50, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Direct interests			Deemed interests		
	At 1 January 2017 or date of appointment	At 31 December 2017	At 21 January 2018	At 1 January 2017 or date of appointment	At 31 December 2017	At 21 January 2018
Company						
Ordinary shares						
Li Tak Tai Leada	50,000	50,000	50,000	36,000	36,000	36,000
Xu Zhi Bin	-	-	-	14,000,000	14,000,000	14,000,000
Wang Qi	-	-	-	-	10,400,000	10,400,000

By virtue of Section 7 of the Singapore Companies Act, Cap. 50, Xu Zhi Bin and Wang Qi are deemed to have an interest in the shares of the Company and of its subsidiary to the extent the Company has an interest.

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

DIRECTORS' STATEMENT (Continued)

Share options

During the financial year, no options to take up unissued shares of the Company or its subsidiary were granted and no shares were issued by virtue of the exercise of options to take up unissued shares of the Company or its subsidiary. There were no unissued shares of the Company or its subsidiary under option at the end of the financial year.

Arrangements to enable directors to acquire benefits by means of the acquisition of shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Audit committee

The members of the Audit Committee at the end of the financial year are as follows:

Ng Poh Khoon	(Chairman, Lead Independent Non-Executive Director)
Meng Tao	(Independent Non-Executive Director)
Li Tak Tai Leada	(Non-Executive Director)

The Audit Committee carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act, Cap. 50, the Listing Manual of the Singapore Exchange Securities Trading Limited and the Code of Corporate Governance.

In performing those functions, the Audit Committee reviewed:

- the scope and the results of internal audit procedures with the internal auditor;
- the audit plan of the Company's independent auditors and any recommendations on internal accounting controls arising from the statutory audit;
- the assistance given by the Company's management to the independent auditors;
- the periodic results announcements prior to their submission to the Board for approval;
- the statement of financial position of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2017 prior to their submission to the Board of Directors, as well as the independent auditor's report on the statement of financial position of the Company and the consolidated financial statements of the Group; and
- interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited).

The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and discretion to invite any director or executive officer to attend its meetings.

The Audit Committee convened five meetings during the year, the attendance of members was listed on page 15 and has also met with independent auditors, without the presence of the Company's management, at least once a year.

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

DIRECTORS' STATEMENT (Continued)

Audit committee (Continued)

The Audit Committee has recommended to the Board of Directors that the independent auditors, Crowe Horwath First Trust LLP, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company. The Audit Committee has conducted an annual review of non-audit services provided by the auditors to satisfy itself that the nature and extent of such services will not affect the independence and objectivity of the external auditors before confirming their re-nomination.

In appointing the external auditors for the Company and its subsidiary, the Company has complied with Rules 712 and 715 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

Further details regarding the Audit Committee are disclosed in the Report on Corporate Governance in the Annual Report.

Independent auditors

The independent auditors, Crowe Horwath First Trust LLP, have expressed their willingness to accept the re-appointment as auditors of the Company.

On behalf of the Board of Directors

XU ZHI BIN
Executive Chairman

WANG QI
Executive Director

26 March 2018

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF STAR PHARMACEUTICAL LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of STAR Pharmaceutical Limited (the Company) and its subsidiary (the Group), set out on pages 42 to 96, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2017, 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 for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position 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 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's 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 opinion.

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.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF STAR PHARMACEUTICAL LIMITED

Key Audit Matters (Continued)

Occurrence of marketing and distribution expenses (Note 21(a) and Note 16 to the financial statements)	*How we addressed the risk*
During the financial year, the Group's operations were affected by the new "Two-invoice System" ("the System") implemented by the government of The People's Republic of China as part of the national medical and health system reforms. The Group's revenue increased by 51% to RMB 93,321,000 due to higher selling price of drugs. The Group relied heavily on various distributors and agents to promote the sales of its pharmaceutical products. As a result of certain policies implemented under the System, the Group has changed the traditional multi-layer distribution chain to a flatter one. This has resulted in significantly higher selling and distribution expenses, which were mainly contributed by marketing and distribution expenses amounting to RMB 31,329,000 (2016: nil) (Note 21(a)). The accrued marketing and distribution expenses as at 31 December 2017 amounted to RMB 19,360,000 (Note 16 to the financial statements). We focus on the financial impacts brought about by the implementation of the System in view of its significance. In particular, due to significance of the amount of the marketing & distribution expenses as well as high transaction volume, we have considered these to be potential risk factors that may give rise to a material misstatement as far as the occurrence of these expenses are concerned.	Our audit focus was on the occurrence of the marketing and distribution expenses. Our procedures applied include the following: 1. Inquiry with management to gain an understanding on the changes in the business operations and the accounting process flow, brought by the System; 2. Conducting a walkthrough of transaction process flow to reaffirm our understanding based on management's representation regarding the Group's process in accruing marketing and distribution expenses; 3. Performing analytical procedures to test reasonableness of marketing and distribution expenses incurred by making comparison with the Group's estimated planned expenses by province; 4. Performing substantive procedures by validating the expenses incurred to suppliers' invoices, statements of agency fees endorsed by marketing agents and subsequent payments for these expenses after year end to verify the existence of the expenses incurred during the year; 5. Performing re-computation of management's calculation of the accrued selling and distribution expenses; and

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF STAR PHARMACEUTICAL LIMITED

Key Audit Matters (Continued)

Occurrence of marketing and distribution expenses (Note 21(a) and Note 16 to the financial statements)	*How we addressed the risk*
	6. Conducting background searches on material distributors and marketing agents. Based on the results of above procedures, we noted that the marketing and distribution expenses (including the accrued amounts) are properly corroborated with relevant supporting documents.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF STAR PHARMACEUTICAL LIMITED

Key Audit Matters (Continued)

Write-off of refundable deposits and intangible assets (Note 9 and Note 12 to the financial statements)	***How we addressed the risk***
During the financial year, the Group has written off intangible assets (product development in progress) and refundable deposits of RMB6,677,000 and RMB13,907,000 respectively, which are included in "Other operating expenses". These amounts represented sums paid to third party research companies for potential acquisition and development of technical know-how to manufacture selected drugs. The substantial write-off was arising from the termination of research projects which were in various milestones after weighing the products' commercial disadvantages, including the policies implemented by the PRC government in introducing consistency evaluation for generic drugs for injection. Termination agreements were signed with those research companies which provided for partial refunds in certain cases. The amounts that the Group was unable to recover were written-off. As at 31 December 2017, the carrying amounts of the intangible assets (product development in-progress) and refundable deposits after the above write-off stood at RMB5,801,000 and RMB15,640,000 respectively which represented ongoing active research projects. As the amounts written off are material, and significant judgement has been applied by management of the Group in evaluating the commercial viability of these research projects, we considered this a key audit matter.	Our audit efforts focused on the management's judgement in assessing the commercial viability of product research projects. Our procedures cover both active (existing or new) and aborted research projects, which include the following: <u>Active projects</u> 1. Obtaining a full list of research projects run by the Group during the financial year. 2. Identifying the new research projects and match the project list to the respective new contracts signed by the Group with the research companies; 3. Conducting background searches on all new research companies engaged by the Group for the new projects; 4. Verification of deposits paid to respective research companies to relevant supporting documents; and 5. Review of valuation reports provided by external professional valuer for all on-going product projects and inquiry with the valuer on justifications for key assumptions adopted in deriving at the value-in-use of the projects.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF STAR PHARMACEUTICAL LIMITED

Write-off of refundable deposits and intangible assets (Note 9 and Note 12 to the financial statements) (Continued)	***How we addressed the risk***
	Aborted projects 1. Evaluating management's rationale in identifying the research projects which are to be aborted; 2. Reviewing of research study reports produced by the research companies to understand the status of research work for the affected projects as at the reporting date. This is to validate management's representations regarding factors that have been taken into consideration for research projects to be aborted. 3. Reviewing of termination agreements signed as acceptance between the affected research companies and the Group, to confirm that no further obligations to be fulfilled by the Group under the contract. 4. Verifying refunds of deposits received during the year to bank statements. 5. Assessing and corroborating the adequacy and appropriateness of the disclosures made in the financial statements. 6. Circularisation of confirmation requests to research companies to authenticate material balance of deposits which are to be refunded and further checking to the subsequent receipts. Based on the results of above procedures, we noted that the management's judgement is reasonable. Based on the results of above procedures, we noted that the management's judgement is reasonable premised on the factual circumstances established in research projects.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF STAR PHARMACEUTICAL LIMITED

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 auditor's 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. We have nothing to report in this regard.

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 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.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF STAR PHARMACEUTICAL LIMITED

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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 auditor's 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 auditor's 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.

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.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF STAR PHARMACEUTICAL LIMITED

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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 auditor's 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, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Teo Yen Lin.

Crowe Horwath First Trust LLP
Public Accountants and
Chartered Accountants
Singapore

26 March 2018

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

(Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	Group		Company	
		2017	2016	2017	2016
		RMB'000	RMB'000	RMB'000	RMB'000
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	3(a)	144,975	144,975	144,975	144,975
Treasury shares	3(b)	(293)	(170)	(293)	(170)
Statutory reserves	4(a)	22,669	21,906	-	-
(Accumulated losses) / Retained earnings	4(b)	(32,641)	(11,033)	(3,790)	21,263
TOTAL EQUITY		134,710	155,678	140,892	166,068
ASSETS					
Non-current assets					
Property, plant and equipment	5	42,521	54,003	-	6,596
Investment properties	6	12,293	2,365	10,160	-
Investment in a subsidiary	7	-	-	76,607	76,607
Lease prepayments	8	614	690	-	-
Intangible assets	9	5,801	6,128	-	-
Refundable deposits	12	13,273	22,174	-	-
Deferred tax assets	18	4,780	1,220	-	-
		79,282	86,580	86,767	83,203
Current assets					
Inventories	10	27,412	22,321	-	-
Trade receivables	11	8,995	2,198	-	-
Other receivables, prepayments and deposits	12	5,516	10,673	44	-
Income tax recoverable		1,307	33	-	-
Due from a subsidiary (non-trade)	13	-	-	-	18,000
Available-for-sale financial assets	14	-	=	-	-
Cash and bank balances	15	68,961	69,670	55,910	65,974
		112,191	104,895	55,954	83,974
TOTAL ASSETS		191,473	191,475	142,721	167,177

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	Group		Company	
		2017	2016	2017	2016
		RMB'000	RMB'000	RMB'000	RMB'000
LIABILITIES					
Current liabilities					
Trade and other payables	16	56,763	23,755	1,829	1,109
Short-term borrowing	17	-	12,000	-	-
		56,763	35,755	1,829	1,109
Non-current liability					
Deferred tax liabilities	18	-	42	-	-
TOTAL LIABILITIES		56,763	35,797	1,829	1,109
NET ASSETS		134,710	155,678	140,892	166,068

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	Group	
		2017	2016
		RMB'000	RMB'000
Revenue	19	93,321	61,678
Cost of sales		(41,277)	(40,273)
Gross profit		52,044	21,405
Other operating income	20	2,987	2,012
Selling and distribution expenses	21	(37,824)	(5,853)
Administrative expenses	21	(16,536)	(15,443)
Other operating expenses	23	(21,141)	(549)
Finance income	24	639	3,874
Finance costs	25	(3,425)	(1,656)
(Loss) / Profit before tax		(23,256)	3,790
Income tax credit / (expense)	26	2,411	(1,198)
(Loss) / profit for the year		(20,845)	2,592
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
- Fair value loss on available-for-sale financial assets		-	(1,562)
- Reclassification upon redemption of available-for-sale financial assets		-	1,562
Other comprehensive income, net of tax		-	-
Total comprehensive (loss) / income for the year		(20,845)	2,592
Total comprehensive (loss) / income attributable to:			
Equity holders of the Company		(20,845)	2,592
(Loss) / Earnings per share (RMB cents)			
Basic and diluted	27	(44.76)	5.54

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Attributable to equity holders of the Company				
Group	Share capital	Treasury shares	Statutory reserves	Accumulated losses	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2016	144,975	-	21,314	(13,033)	153,256
Profit for the year, representing total comprehensive income for the year	-	-	-	2,592	2,592
Purchase of treasury shares	-	(170)	-	-	(170)
Transfer to statutory reserves	-	-	592	(592)	-
As at 31 December 2016	144,975	(170)	21,906	(11,033)	155,678
As at 1 January 2017	144,975	(170)	21,906	(11,033)	155,678
Loss for the year, representing total comprehensive loss for the year	-	-	-	(20,845)	(20,845)
Purchase of treasury shares	-	(123)	-	-	(123)
Transfer to statutory reserves	-	-	763	(763)	-
As at 31 December 2017	144,975	(293)	22,669	(32,641)	134,710

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	Group 2017 RMB'000	Group 2016 RMB'000
Cash flows from operating activities			
(Loss) / Profit before tax		(23,256)	3,790
Adjustments:			
Amortisation of lease prepayments		76	76
Allowance for doubtful debts		300	-
Inventory written off		102	634
Depreciation of property, plant and equipment		6,054	5,854
Depreciation of investment properties		308	230
Loss on disposal of property, plant and equipment		11	15
Loss on redemption of available-for-sale financial assets		-	1,562
Intangible assets written off	9	6,677	-
Write off of refundable deposits	12	13,907	-
Interest expense		-	56
Interest income		(639)	(1,757)
Foreign exchange loss / (gain)		3,418	(2,513)
Operating profit before working capital changes		6,958	7,947
Inventories		(5,193)	(6,928)
Trade and other receivables		(6,279)	8,258
Trade and other payables		33,008	(1,001)
Cash generated from operations		28,494	8,276
Income tax paid		(2,465)	-
Net cash from operating activities		26,029	8,276
Cash flows from investing activities			
Purchase of property, plant and equipment		(4,829)	(5,438)
Prepayments for plant and equipment		(294)	(913)
Proceeds from disposal of property, plant and equipment		10	11
Payment of deposits for product manufacturing rights and technical know-how		(12,673)	(7,285)
Payment of deposits recognised as intangible assets		(10,350)	-
Refund of deposit previously capitalised as intangible asset		4,000	-
Refund of deposits from third party research companies		12,300	7,000
Purchase of available-for-sale financial assets		(31,000)	(52,500)
Proceeds from redemption of available-for-sale financial		31,000	94,612
Interest received		639	1,757
Net cash (used in) / from investing activities		(11,197)	37,244

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	Group 2017 RMB'000	Group 2016 RMB'000
Cash flows from financing activities			
(Repayment of) / Proceeds from borrowing	17	(12,000)	12,000
Purchase of treasury shares	3(b)	(123)	(170)
Net cash (used in) / from financing activities		(12,123)	11,830
Net increase in cash and cash equivalents		2,709	57,350
Cash and cash equivalents at beginning of year		69,670	9,807
Effect of exchange rate changes on cash and cash equivalents		(3,418)	2,513
Cash and cash equivalents, representing cash and bank balances at end of year	15	68,961	69,670

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000") unless otherwise stated)

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. GENERAL INFORMATION

STAR Pharmaceutical Limited (the "Company") is a limited company domiciled and incorporated in Singapore. The Company was admitted to the official list on the mainboard of the Singapore Exchange Securities Trading Limited on 15 February 2006. The address of the Company's registered office is 6 Battery Road, #10-01, Singapore 049909. The Group's principal place of business is Dalu Town, Qionghai City, Hainan Province 571425, People's Republic of China ("PRC").

The principal activities of the Company are those relating to investment holding. The principal activity of the subsidiary is those relating to the development, manufacturing and trading of pharmaceutical products.

The financial statements for the financial year ended 31 December 2017 were authorised for issue in accordance with a resolution by the Board of Directors on 26 March 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below and are drawn up in accordance with the provisions of the Singapore Companies Acts, and Singapore Financial Reporting Standards ("FRS"). The financial statements are presented in Chinese Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000") as indicated.

The preparation of the financial statements in conformity with FRS requires management to exercise its judgements in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements and areas involving a higher degree of judgement or complexity, are disclosed in this Note.

Adoption of new and revised standards

On 1 January 2017, the Group adopted the new or amended FRS and Interpretations of FRS ("INT FRS") that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS. The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the Group's and Company's accounting policies and had no material effect on the amounts reported for the current or prior financial years, except as disclosed below.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amendments to FRS 7: Disclosure Initiative

The amendments introduce additional disclosure requirement intended to enable users of financial statements to evaluate changes in liabilities arising from financial activities, including both changes arising from cash flows and non-cash changes.

The Group's liabilities arising from financing activities and a reconciliation between the opening and closing balances of these liabilities are set out in Note 17. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 17, the application of these amendments has had no impact on the Group's consolidated financial statements.

Standards issued but not yet effective

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
FRS 115 *Revenue from Contracts with Customers (including Clarifications)*	1 January 2018
FRS 109 *Financial Instruments*	1 January 2018
Amendments to FRS 102: *Classification and Measurement of Share-based Payment Transactions*	1 January 2018
Amendments to FRS 40: *Transfers of Investment Property*	1 January 2018
Improvements to FRSs (Dec 2016)	
- FRS 101 *First-time Adoption of Financial Reporting Standards*	1 January 2018
- FRS 28 *Investments in Associates and Joint Ventures*	1 January 2018
INT FRS 122: *Foreign Currency Transactions and Advance Consideration*	1 January 2018
Amendments to FRS 104: *Applying FRS 109 Financial Instruments with FRS 104 Insurance Contracts*	1 January 2018
FRS 116 *Leases*	1 January 2019
INT FRS 123: *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to FRS 109: Prepayment Features with Negative Compensation	1 January 2019
Amendments to FRS 28: Long-term Interests in Associates and Joint Ventures	1 January 2019
Improvements to FRSs (March 2018)	
- Amendments to FRS 103 Business Combinations	1 January 2019
- Amendments to FRS 111 Joints Arrangements	1 January 2019
- Amendments to FRS 12 Income Taxes	1 January 2019
- Amendments to FRS 23 Borrowing Costs	1 January 2019

Except for FRS 115, FRS 109, FRS 116, INT FRS 123 and the convergence to IFRS, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of FRS 115, FRS 109, FRS 116, INT FRS 123 and the convergence to IFRS are described below.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Standards issued but not yet effective (Continued)

FRS 115 *Revenue from Contracts with Customers (including Clarifications)*

FRS 115 establishes a single comprehensive model in accounting for revenue arising from contracts with customers, and will supersede the current revenue recognition guidance including FRS 18 Revenue, FRS 11 Construction Contracts and the related Interpretations when it becomes effective in 2018.

The core principle of FRS 115 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under FRS 115, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customers.

The application of FRS 115 may have material impact on the accounts reported and disclosure in the Group's consolidated financial statements. The Group is in the process of assessing the terms of the Group's sales contracts, including but not limited to the warranty, shipping term, pricing and etc which is likely in respect of identifying performance obligations and allocating considerations within contracts with customers.

FRS 109 *Financial Instruments*

FRS 109 replaces FRS 39 Financial Instruments: Recognition and Measurement, and introduces new requirements for classification and measurement, impairment and hedge accounting. The adoption of FRS 109 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. FRS 109 also introduces a new expected loss impairment model, and adds detailed guidance on impairment-related presentation and disclosures. FRS 109 also contains new requirements on hedge accounting, which adopts a more principle-based approach, and allows entities to choose between applying hedge accounting requirements of FRS 109 or continue to apply the existing hedge accounting requirements in FRS 39 for all hedge accounting. FRS 109 is effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The Group will adopt the standard when it becomes effective in 2018. The Group is evaluating the possible effects of FRS 109. However, at this stage, the Group is unable to quantify the impact on the financial statements.

Convergence with International Financial Reporting Standards (IFRS)

The Accounting Standards Council announced on 29 May 2014 that Singapore incorporated companies listed on the Singapore Exchange will apply a new financial reporting framework identical to the International Financial Reporting Standards, Singapore Financial Reporting Standards (International). The Group will adopt the new financial reporting framework on 1 January 2018.

Based on the Group's preliminary assessment, the Group expects that the impact on adoption of SFRS (I) 15 *Revenue from Contracts with Customers and SFRS(I) 9 Financial Instruments* will be similar to adopting FRS 115 and FRS 109 as described above.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Standards issued but not yet effective (Continued)

Convergence with International Financial Reporting Standards (IFRS) (Continued)

The Group is currently performing an analysis of the available policy choices, transitional optional exemptions and transitional mandatory exceptions under *SFRS (I) 1*.

FRS 116 *Leases*

This new standard on leases supersedes the previous standard (FRS 17) and interpretations and brings in a new definition of a lease that will be used to identify whether a contract is, or contains, a lease. For leasees, FRS 116 reforms leasee accounting by introducing a single model similar to the existing finance lease model. Specifically, lessees are required to recognise all leases on their statements of financial position to reflect their rights to use leased assets and the associated obligations for lease payments, with limited exemptions. However, lessor accounting, with the distinction between operating and finance leases, remains largely unchanged. FRS 116 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted for entities that apply FRS 115 *Revenue from Contracts with Customers* at or before the date of initial application of this standard. The Group will apply the new FRS 116 when it becomes effective in 2019, which is expected to increase in total assets and total liabilities, earnings before interest, tax, depreciation and amortisation and gearing ratio in the Group's consolidated financial statements.

INT FRS 123: *Uncertainty over Income Tax Treatments*

The interpretation clarifies that, when there is uncertainty over income tax treatments, an entity considers whether it is probable that the tax authority will accept the entity's tax treatment. When it is probable, an entity determine the accounting tax position consistently with the tax treatment used or planned to be used in the entity's income tax filings. Otherwise, an entity should estimate the effect of uncertainty using either the most likely amount or the expected value method, whichever method better predicts the resolution of the uncertainty. Consistent judgements and estimates should be made for both current tax and deferred tax. The interpretation is effective for annual periods beginning on or after 1 January 2019. An entity can apply the interpretation using either full retrospective (without use of hindsight) or modified retrospective approach (without restating comparative information).

Group accounting

Subsidiaries

(a) Basis of consolidation

Subsidiaries are entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Group accounting (Continued)

Subsidiaries (Continued)

(b) Acquisition of businesses

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with FRS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The excess of the consideration transferred and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

(c) Disposals of subsidiaries or businesses

The assets and liabilities of the subsidiary, including any goodwill, are derecognised when a change in the Company's ownership interest in a subsidiary results in a loss of control over the subsidiary. Amounts recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific Standard.

Any retained interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained investment at the date when control is lost and its fair value is recognised in profit or loss. Subsequently, the retained interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Subsidiary

Investment in subsidiary is carried at cost less accumulated impairment losses in the Company's statement of financial position. On disposal of investment in subsidiary, the difference between disposal proceeds and the carrying amount of the investment is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Currency translation

(i) Functional and presentation currency

The individual financial statements of each entity are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Chinese Renminbi ("RMB"), which is also the functional currency of the Company.

(ii) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are measured in the respective functional currencies of the Company and its subsidiary and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity in the consolidated financial statements. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

Share capital and treasury shares

Proceeds from issuance of ordinary shares are classified as share capital in equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital.

When ordinary shares are reacquired ("treasury shares"), the amount of consideration paid including any directly attributable incremental costs is presented as a component within equity, until they are cancelled, sold or reissued. When treasury shares are subsequently cancelled, the cost of the treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained earnings of the Company, if the shares are purchased out of earnings of the Company. When treasury shares are subsequently sold or reissued pursuant to the employee share option scheme, the cost of treasury shares is reversed from the treasury shares account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised in the capital reserve of the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of property, plant and equipment including subsequent expenditure is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance expenses are recognised in profit or loss when incurred.

After initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment loss.

Construction in-progress ("CIP") includes all cost of construction and other direct costs. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. CIP is reclassified to the appropriate category of property, plant and equipment when it is completed and ready to use.

CIP is not depreciated. All other items of property, plant and equipment are depreciated using the straight-line method to write off the cost of assets less estimated residual value over their estimated useful lives as follows:

	Useful lives (Years)	Estimated residual value as a percentage of cost (%)
Leasehold buildings	20	5% to 10%
Leasehold improvements	5	10%
Machinery and equipment	5 to 10	5% to 10%
Motor vehicles	5	5% to 10%
Office equipment	5	5% to 10%

The residual value, estimated useful life and depreciation method are reviewed periodically to ensure that the amount, method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment. Fully depreciated assets are retained in the financial statements until they are no longer in use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in the statement of profit or loss and other comprehensive income within other operating income / (expenses).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lease prepayments

Leases of land under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases. Lease prepayments for land use rights are stated at cost less accumulated amortisation and accumulated impairment loss. Amortisation is charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the terms of the respective leases ranging from 48 years to 50 years.

Intangible assets

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred.

Expenditure on development activities (relating to the design and testing of new or improved products) is capitalised under the category of "product development in-progress" if the product or process is technically and commercially feasible, the Group has sufficient resources and the intention to complete development, and if the costs can be measured reliably. Upon commencement of the commercial production of a product, the expenditure on development activities is transferred to "deferred development costs" and amortised on a straight-line basis over the period of its expected benefit. Development costs comprise of costs that are directly attributable to development activities or that can be allocated on a reasonable basis to such activities.

Deferred development costs that are acquired by the Group are stated in the statement of financial position at cost less accumulated amortisation and impairment losses.

Subsequent expenditure on development activities after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

Amortisation of deferred development costs is charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful life of 5 years.

Product development in progress are tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying amounts may be impaired either individually or at the cash-generating unit level. Product development in progress is not amortised.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are properties that are either owned by the Group or leased under a finance lease in order to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services, or for administrative purposes, or in the ordinary course of business. Investment properties comprise completed investment properties and properties that are being constructed or developed for future use as investment properties.

Investment properties are initially recognised at cost including transaction costs and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated using straight-line method to write off the cost of the assets less estimated residual value over the estimated useful lives as follows:

	Useful lives (Years)	Estimated residual value as a percentage of cost (%)
Investment properties	20	10%

The residual values, useful lives and depreciation method of investment properties are reviewed, and adjusted as appropriate, at each reporting date. The effects of any revision are included in the income statement when the changes arise.

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised and the carrying amounts of the replaced components are written off to profit or loss. The cost of maintenance, repairs and minor improvement is charged to the profit or loss when incurred. On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The gain or loss on the retirement or disposal of an investment property is determined as the difference between any sales proceeds and the carrying amounts of the asset and is recognised in profit or loss in the year of retirement or disposal within "Other income / (expenses)".

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely dependent on those from other assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecasts calculations are generally covering a period of five to ten years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the tenth year.

Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

Financial assets

(i) Initial recognition and measurement

Financial assets are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition. Financial assets are initially recognised at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

(ii) Subsequent measurement

The Group classifies its financial assets in the following categories: loans and receivables, financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets. The classification depends on the nature of the assets and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition and for held-to-maturity investments, re-evaluates this designation at every reporting date. During the financial year, the Group did not have other categories of financial assets except for loans and receivables and available-for-sale financial assets.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than 12 months after the reporting date which are classified as non-current assets. Loans and receivables comprise cash and cash equivalents, trade and other receivables, including amount due from a subsidiary, excluding prepayments and refundable deposits (current and non-current).

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

(b) Available-for-sale financial assets

Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. Assets in this category are presented as non-current assets unless the investment matures or management intends to dispose of the assets within 12 months after the reporting date.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

Investments in equity instruments whereby fair value cannot be reliably measured are stated at cost less impairment loss.

(iii) Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

(i) Financial assets carried at amortised cost (Continued)

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying amount of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

(ii) Available-for-sale financial assets

Considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired include (i) a significant or prolonged decline in the fair value of the investment below its costs, (ii) significant financial difficulties of the issuer or obligor, and (iii) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

When the available-for-sale financial asset is impaired, the cumulative loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss previously recognised in the profit or loss, is transferred from other comprehensive income and recognised in profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

For debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as the financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Raw materials comprise purchase cost accounted for on a weighted average basis. Finished goods comprise cost of direct materials, direct labour and an attributable proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories (Continued)

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs to completion and estimated costs to be incurred for selling and distribution.

Financial liabilities

(i) Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs. As at the reporting date, the Group did not have financial liabilities in the categories of the financial liabilities at fair value through profit or loss.

(ii) Subsequent measurement

Financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when liabilities are derecognised, and through the amortisation process.

(iii) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

Value-added-tax ("VAT")

The Group's sales of medical products and service income in the PRC are subject to VAT at the applicable tax rate of 17% for PRC domestic sales. Input tax on purchases can be deducted from output VAT. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Trade receivables" or "Trade payables" in the statement of financial position.

Borrowings

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the reporting date, in which case they are presented as non-current liabilities.

Borrowings are initially recorded at fair value, net of transaction costs and subsequently carried for at amortised costs using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings which are due to be settled within twelve months after the reporting date are included in current borrowings in the statement of financial position even though the original term was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue and the associated costs can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and sales taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements with the exception of subcontracting service whereby it acts as a manufacturing agent. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from sale of goods is recognised upon the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and title has passed. Revenue excludes VAT or other sales taxes and is after deduction of any trade discounts. Revenue is not recognised to the extent of probable recovery where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Subcontracting service income is recognised when the services are rendered which generally coincides with the time when the pharmaceutical products manufactured on behalf of the buyer are delivered. This revenue is included in "other operating income" on the consolidated statement of profit or loss and other comprehensive income.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

Rental income from operating lease (net of any incentives given to the lessees) is recognised on a straight-line basis over the lease term.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all terms and conditions relating to the grants have been complied with. When the grant relates to an expense item, it is recognised in the profit or loss over the periods necessary to match them on a systematic basis to the costs, which it is intended to compensate.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

(i) As lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in this Note. Contingent rents are recognised as revenue in the period in which they are earned.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

(ii) As lessee

Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased item are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Employees' benefits

(i) Retirement benefits

People's Republic of China ("PRC")

The subsidiary, incorporated and operating in the PRC, is required to provide certain retirement plan contribution to their employees under the existing PRC regulations. Contributions are provided at rates stipulated by the PRC regulations and are managed by government agencies, which are responsible for administering these amounts for the subsidiary's employees.

Obligations for contributions to defined contribution retirement plans are recognised as an expense in the period in which the related service is performed.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets) and gains on the redemption of available-for-sale financial assets that are recognised in profit or loss and reclassifications of net gains previously recognised in other comprehensive income ("OCI").

Finance costs comprise interest expense on borrowings and losses on redemption of available-for-sale financial assets that are recognised in profit or loss and reclassifications of net gains previously recognised in OCI.

Foreign exchange gains or losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using tax rates and tax laws that have been substantively enacted by the reporting date in the countries where the Group operates and generates taxable income. Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiary, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow deferred tax assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprises cash on hand, deposits with financial institutions, and short term, highly liquid investments readily convertible to known amounts of cash and subjected to an insignificant risk of changes in value and have a short maturity of generally within three months when acquire.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and the Company if that person:

(i) Has control or joint control over the Company;
(ii) Has significant influence over the Company; or
(iii) Is a member of the key management personnel of the Group or the Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
(iii) Both entities are joint ventures of the same third party;
(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
(vi) The entity is controlled or jointly controlled by a person identified in (a).
(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Executive Directors whose members are responsible for allocating resources and assessing performance of the operating segments. The Group's Executive Directors consider the development, manufacturing and trading of pharmaceutical products as a single reportable segment.

Critical accounting estimates, assumptions and judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of property, plant and equipment

Determining whether property, plant and equipment are impaired requires an estimation of the value in use of those assets. The value in use calculation requires the entity to estimate the future cash flows expected to arise from these assets and a suitable discount rate in order to calculate present value. The net carrying amount of the Group's property, plant and equipment as at 31 December 2017 was RMB 42,521,000 (2016: RMB 54,003,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates, assumptions and judgements

(i) Critical accounting estimates and assumptions (Continued)

(a) Impairment of property, plant and equipment (Continued)

In view of the reduced production volume, the production lines have been operating at below normal capacity. In accordance with the requirements of FRS 36, management has performed an impairment assessment for the production facilities comprising the factory building and production plant and machinery located at Hainan, Republic of China ("PRC"). No impairment is recognised during the financial year. The carrying amount of the production facilities is approximately RMB 25,920,000 (2016: RMB 28,701,000) as disclosed in Note 5.

(b) Impairment of intangible assets

An impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Determining whether intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which the intangible assets have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Product development in progress not yet available for use as at 31 December 2017 has a carrying amount of RMB 5,801,000 (2016: RMB 6,128,000). The details of the impairment testing consideration are disclosed in Note 9. Favourable or unfavourable changes in the outcome of the development including the target selling price and the market demand may result in changes in impairment loss in next financial year.

The management is of the view that no impairment loss is likely within the next financial year.

(c) Income taxes

The Group is subject to income taxes in Singapore and Republic of China ("PRC"). Significant judgement is required in determining the group-wide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred tax assets are recognised for all deductible temporary difference to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profit together with future tax planning strategies.

The Group has recognised the deferred tax asset of RMB 810,000 relating to the write off of intangible assets and refundable deposits during the year as the Group expects the amount to be tax deductible upon receiving relevant documents to support termination of contracts. However, the deduction is subject to the approval of the tax authorities. The carrying amounts of the income tax recoverable and deferred tax assets of the Group as at 31 December 2017 are RMB 1,307,000 and RMB 4,780,000 (2016: RMB 33,000 and RMB 1,220,000) respectively.

NOTES TO THE FINANCIAL STATEMENTS

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(Amounts in thousands of Chinese Renminbi ("RMB'000"))

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Critical judgements in applying the entity's accounting policies (Continued)

The following are the judgements made by management in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

Refundable deposits

The Group actively sources for suitable development projects marketed by third party research companies and enters into collaboration arrangements with them to provide funding with the objective of eventual acquisition of these identified technical know-hows. Under such investing arrangements, the Group is typically required to make upfront deposit payments to fund these third party research companies so as to enable them to continue to complete the development of the technical know-how. The completion of the technical know-how development and the completion of the acquisition by the Group are often evidenced by the successful registration of the manufacturing rights with the relevant regulatory bodies.

To safeguard the interest of the Group and to mitigate the research and development risk, the Group enters into acquisition contracts that provide for refund options should the Group or the third party research companies fail to meet the contractual obligations and allow for early termination on mutual agreement.

As at the end of the reporting date, the Group placed several deposits to various third party research companies for the potential acquisition of the technical know-how developed based on collaborative efforts between the Group and those third party research companies. These deposits have been classified as refundable deposits within the non-current assets categories and as non-financial assets as these deposits are intended for planned acquisition of technical know-hows.

In making this judgement, management considered the overall rationale for the placement of these deposits and the detailed criteria for the recognition of intangible assets as set out in FRS 38 *Intangible Assets* as well as the classification of assets criteria as set out in FRS 1 *Presentation of Financial Statements*. In particular, management has also considered the salient contractual features of the agreements as well as the status of the acquisition as at each reporting date for each of the projects.

Specific considerations by management when exercising its judgement are as set out below:

(a) The underlying intangible asset is in the process of being developed by the third party research companies and the criteria for recognition of intangible assets has not yet been met as the acquisition is conditional on the successful transfer of registered manufacturing rights to the Group. It is therefore premature to include these as intangible assets or to classify them as prepayments for acquisitions of non-financial assets.

(b) Based on the salient contractual features of the deposits, the Group is entitled to enforce its contractual rights for full refund if the contractual milestone towards the completion of the development phase is not achieved. As at reporting date, the third party research companies have yet to fulfil their contractual obligations and the Group is therefore entitled to the refund of the deposits although management did not exercise such an option. Accordingly, management has classified these deposits as refundable deposits but not as financial assets as these deposits are intended for planned acquisition of technical know-hows.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates, assumptions and judgements (Continued)

(ii) Critical judgements in applying the entity's accounting policies (Continued)

Refundable deposits (Continued)

Specific considerations by management when exercising its judgement are as set out below:

(c) Management evaluates the status of each of these refundable deposits within the typical operating cycle of such projects of 18 months and further determines its course of actions thereafter. Accordingly, these refundable deposits are classified as either non-current assets or current assets, depending on management's plan to realise underlying intangible assets or intention to seek a refund of deposit within the operating cycle. As at 31 December 2017, management has classified the refundable deposits into non-current assets and current assets amounting to RMB 13,273,000 and RMB 2,367,000 (2016: RMB 22,174,000 and RMB 7,000,000) respectively.

The carrying amounts and details of the salient contractual terms of these refundable deposits in the Group's financial statements as at 31 December 2017 are disclosed in Note 12.

3(a). SHARE CAPITAL

	Group and Company			
	2017 RMB'000	2017 No. of shares '000	2016 RMB'000	2016 No. of shares '000
Issued and paid up capital				
At beginning and end of year	144,975	46,825	144,975	46,825

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
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3(b). TREASURY SHARES

	Group and Company			
	2017 RMB'000	2017 No. of shares '000	2016 RMB'000	2016 No. of shares '000
At beginning of year	(170)	(215)	-	-
Repurchased during the year	(123)	(118)	(170)	(215)
At end of year	(293)	(333)	(170)	(215)

During the Annual General Meeting on 27 April 2017, the shareholders of the Company approved the purchase of ordinary shares in the share capital of the Company. The Company acquired 118,800 (2016: 214,500) of its own shares through purchases on the Singapore Exchange during the year. The total amount paid to acquire the shares was RMB 123,375 (2016: RMB 170,000) and has been deducted from shareholders' equity. The shares are held as "treasury shares".

4(a). STATUTORY RESERVES

	Group	
	2017 RMB'000	2016 RMB'000
At beginning of year	21,906	21,314
Transferred from profit earned during the year	763	592
At end of year	22,669	21,906

According to the relevant PRC laws and regulations and Articles of Association of the subsidiary, the subsidiary is required to transfer 10% of profit after tax, as determined by PRC GAAP, to the statutory surplus reserve until the reserve balance reaches 50% of the respective subsidiary's registered capital. The transfer to this reserve must be made before the distribution of dividends to equity owners of the subsidiary. Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into paid-in capital in proportion to the existing interests of equity owners of the subsidiary.

4(b). (ACCUMULATED LOSSES) / RETAINED EARNINGS

	Group		Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
At beginning of year	(11,033)	(13,033)	21,263	(15,933)
(Loss) / Profit for the year	(20,845)	2,592	(25,053)	37,196
Transferred to statutory reserves	(763)	(592)	-	-
At end of year	(32,641)	(11,033)	(3,790)	21,263

NOTES TO THE FINANCIAL STATEMENTS

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5. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold buildings	Leasehold improvements	Machinery and equipment	Motor vehicles	Office equipment	Construction on in-progess ("CIP")	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
As at 1 January 2016	42,847	7,695	43,128	1,194	2,558	4,049	101,471
Additions	-	948	1,221	601	121	2,547	5,438
Disposals	-	-	-	(231)	(31)	-	(262)
As at 31 December 2016	42,847	8,643	44,349	1,564	2,648	6,596	106,647
As at 1 January 2017	42,847	8,643	44,349	1,564	2,648	6,596	106,647
Additions	-	155	893	-	56	3,725	4,829
Transfer of investment properties (Note 6)	-	-	-	-	-	(10,236)	(10,236)
Disposals	-	-	-	(214)	-	-	(214)
As at 31 December 2017	42,847	8,798	45,242	1,350	2,704	85	101,026
Accumulated depreciation							
As at 1 January 2016	18,818	4,563	22,047	70	1,528	-	47,026
Charge for the year	2,786	521	2,214	218	115	-	5,854
Disposals	-	-	-	(208)	(28)	-	(236)
As at 31 December 2016	21,604	5,084	24,261	80	1,615	-	52,644
As at 1 January 2017	21,604	5,084	24,261	80	1,615	-	52,644
Charge for the year	2,522	529	2,500	368	135	-	6,054
Disposals	-	-	-	(193)	-	-	(193)
As at 31 December 2017	24,126	5,613	26,761	255	1,750	-	58,505
Net carrying amount							
As at 31 December 2017	18,721	3,185	18,481	1,095	954	85	42,521
As at 31 December 2016	21,243	3,559	20,088	1,484	1,033	6,596	54,003

During the financial year, depreciation amounting to RMB 4,125,000 (2016: RMB 4,650,000) was charged to 'cost of sales', RMB 1,918,000 (2016: RMB 1,194,000) was charged to 'administrative expenses' and RMB 11,000 (2016: RMB 8,000) was charged to 'selling and distribution expenses'.

<u>Construction in progress</u>

On 7 July 2015, the Group entered into a Sale and Purchase Agreement for the purchase of an office unit located in Singapore. The construction was completed on 27 July 2017. The total acquisition cost is RMB 10,236,000 and transferred as investment property for renting purpose. In prior year, the committed capital expenditure in respect of this acquisition is as disclosed in Note 29(i).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

5. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company	Office equipment	Construction in-progress ("CIP")	Total
	RMB'000	RMB'000	RMB'000
Cost			
As at 1 January 2016	14	4,049	4,063
Additions	-	2,547	2,547
As at 31 December 2016	14	6,596	6,610
As at 1 January 2017	14	6,596	6,610
Additions	-	3,640	3,640
Transferred to investment properties (Note 6)	-	(10,236)	(10,236)
As at 31 December 2017	14	-	14
Accumulated depreciation			
As at 1 January 2016, 31 December 2016 and 1 January 2017 and 31 December 2017	14	-	14
As at 31 December 2017	14	-	14
Net carrying amount			
As at 31 December 2017	-	-	-
As at 31 December 2016	-	6,596	6,596

Impairment assessment of property, plant and equipment

In view of the reduced production volume, the production lines have been operating at below normal capacity. In accordance with the requirements of FRS 36, management has performed an impairment assessment in previous financial year for the production facilities comprising the factory building and production plant and machinery based in Qionghai City, Hainan Province of People's Republic of China ("PRC"). An update to the impairment assessment was performed during the current financial year in view of the loss for the financial year.

The carrying amount of the production facilities, amounting to RMB 25,920,000 (2016: 28,701,000) as at 31 December 2017 comprises the factory building of RMB 8,126,000 (2016: 8,613,000) and production plant and machinery of RMB 17,794,000 (RMB: 20,088,000).

The recoverable amount of the production facilities is determined based on value in use calculation using discounted cash flows approved by the management based on financial budgets and forecast and a suitable discount rate of 18% per annum. No impairment loss is recognised as the recoverable amount exceeds the carrying amount of the production facilities.

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6. INVESTMENT PROPERTIES

	Group		Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Cost				
At beginning of year	5,057	5,057	-	-
Transferred from property, plant and equipment (Note 5)	10,236	-	10,236	-
As at end of year	15,293	5,057	10,236	-
Accumulated depreciation				
At beginning of year	2,692	2,462	-	-
Charge for the year	308	230	76	-
As at end of year	3,000	2,692	76	-
Net carrying amount	12,293	2,365	10,160	-
Fair value	23,704	10,170	10,160	-

At the reporting date, the details of the Group's investment properties are as follows:

			Net Carrying Amount	
Location	Description/ existing use	Tenure	2017 RMB '000	2016 RMB '000
Haikou, Hainan Province, PRC (1)	Office unit	Leashold (unexpired lease term of 41 years)	2,133	2,365
Singapore (2)	Office unit	Leashold (Expired lease term of 99 years)	10,160	-
			12,293	2,365

<u>Valuation of investment properties</u>

Investment properties are stated at cost less accumulated depreciation and accumulated impairment losses as the Group has elected to adopt the cost model method to measure its investment properties.

(1) The fair value as at 31 December 2017 was based on an independent valuation performed as at 3 January 2018 by an independent valuer with a recognised and relevant professional qualification. The valuation is based on comparable market transactions that considered the sales of similar properties that have been transacted in the open market during the year. In estimating the fair value for disclosure, the level of fair value hierarchy is Level 2 (significant other observable inputs) which is based on highest and best use of the property. Investment property is leased to a related party under an operating lease as it is held for future capital appreciation and rental income (Note 28).

(2) The fair value as at 31 December 2017 was based on comparable market transactions that considered the sales of similar properties that have been transacted in the open market during the year. The level of fair value hierarchy is Level 2 (significant other observable inputs) which is based on highest and best use of the property. Investment property is leased to a third party since August 2017 under an operating lease as it is held for rental income (Note 20).

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6. INVESTMENT PROPERTIES (Continued)

During the financial year, total depreciation amounting to RMB 308,000 (2016: RMB 230,000) was charged to administrative expenses.

7. INVESTMENT IN SUBSIDIARY

	Company	
	2017	2016
	RMB'000	RMB'000
Unquoted equity interest, at cost	76,607	76,607

Details of the subsidiary are as follows:

Name of subsidiary	Principal activities	Country of incorporation and place of business	Effective equity interest held by the Group	
			2017	2016
			%	%
Held by the Company				
Hainan STAR Pharmaceutical Co., Ltd. ("Hainan STAR") [1] 海南斯达制药有限公司	Development, manufacturing and trading of pharmaceutical products	People's Republic of China	100	100

[1] Audited by Hainan Ming Zhi Certified Public Accountants (海南明志会计师事务所), a firm of Certified Public Accountants registered in the PRC for statutory purpose and by Crowe Horwath First Trust LLP for consolidation purpose.

8. LEASE PREPAYMENTS

	Group
	RMB'000
Cost	
As at 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	1,570
Accumulated amortisation	
At 1 January 2016	804
Charge for the year	76
At 31 December 2016	880
At 1 January 2017	880
Charge for the year	76
As at 31 December 2017	956

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8. LEASE PREPAYMENTS (Continued)

	Group
	RMB'000
Net carrying amount	
As at 31 December 2017	614
As at 31 December 2016	690

Lease prepayments represent payments for land use rights on three plots of land in PRC. The leases run for initial periods of 48, 50 and 50 years commencing on 28 July 1998, 16 September 1999 and 25 September 2002 respectively. The leases do not include contingent rentals.

9. INTANGIBLE ASSETS

Group	Deferred development costs	Product development in-progress	Total
	RMB'000	RMB'000	RMB'000
Cost			
As at 1 January 2016, 31 December 2016 and 1 January 2017	34,826	54,424	89,250
Additions	-	10,350	10,350
Reversal arising from deposit refunded	-	(4,000)	(4,000)
Written off	-	(6,677)	(6,677)
As at 31 December 2017	34,826	54,097	88,923
Accumulated amortisation and impairment loss			
As at 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	34,826	48,296	83,122
Net carrying amount			
As at 31 December 2017	-	5,801	5,801
As at 31 December 2016	-	6,128	6,128

During the financial year, based on the current status of the development, the management estimated that it is highly probable that the Group is unable to complete the clinical study and submission for regulatory approval due to the change in government regulation in introducing consistency evaluation for generic drugs for injection, resulting in commercial disadvantages. The Group has consequentially made a full impairment amounting to RMB 6,677,000 for the carrying amount of this development in progress. The charge is recognised in other operating expenses, as disclosed in Note 23.

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9. INTANGIBLE ASSETS (Continued)

Product development in-progress

The individual product development in-progress of which net carrying amount is more than 10% of the total intangible assets are as follows:

	Group	
	2017 Net carrying amount	2016 Net carrying amount
	RMB'000	RMB'000
Product development in-progress:		
Product 1	1,887	4,000
Product 2	-	1,960
Product 3	3,000	-

The above product development in-progress belong to the category of "other specialised drugs" and are expected to be completed within the next 1 to 5 years.

Product 1, 2 and 3:

For the purpose of impairment testing at the reporting date, the recoverable amount of the product development in-progress was determined based on a value in use calculation and was determined by discounting future cash flows to be generated from the continuing use of the cash-generating unit with the assistance of an independent valuer. Cash flow projections used in these calculations were based on financial budgets approved by management covering a ten-year period. No impairment loss is recognised for the current and previous financial year as the value in use estimated is higher than the carrying amount.

Deferred development costs

As at 31 December 2017 and 2016, there are no deferred development costs with net carrying amount more than 10% of the total intangible assets.

10. INVENTORIES

	Group	
	2017	2016
	RMB'000	RMB'000
Raw materials, at cost	14,265	15,126
Work in progress, at cost	4,235	2,434
Finished goods, at net realisable value	8,912	4,761
	27,412	22,321

The cost of inventories recognised as an expense in 'cost of sales' amounted to RMB 32,211,000 (2016: RMB 28,561,000). The write-down of finished goods, amounted to RMB 102,000 (2016: RMB 634,000) was recognised as administrative expense for the current financial year.

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11. TRADE RECEIVABLES

	Group	
	2017	2016
	RMB'000	RMB'000
Trade receivables	8,616	1,976
Bills receivables	379	222
	8,995	2,198

Bills receivables of the Group relate to settlement notes received from customers which were issued by state-owned or listed commercial banks in the PRC. As at 31 December 2017, the remaining maturity period of bill receivables is about 6 months.

12. REFUNDABLE DEPOSITS / OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Group		Company	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Refundable deposits (Note A)	13,273	22,174	-	-
Current assets				
Refundable deposits (Note A)	2,367	7,000	-	-
Other receivables	915	1,011	29	-
Other deposits	347	467	2	-
Prepayments:				
- Plant and machinery	1,207	913	-	-
- Raw materials	336	867	-	-
- Others	644	415	13	-
	5,816	10,673	44	-
Provision for impairment loss:				
- Other receivables	(300)	-	-	-
	5,516	10,673	44	-

Note A

Refundable deposits are comprised the following:

	2017	2016
	RMB'000	RMB'000
Refundable deposit I	-	7,000
Refundable deposits II	15,640	22,174
	15,640	29,174

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12. REFUNDABLE DEPOSITS / OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (Continued)

	2017 RMB'000	2016 RMB'000
Movement of the refundable deposits		
At beginning of year	29,174	28,889
Deposits paid to third party research companies	12,673	7,285
Refunded	(12,300)	(7,000)
Write-offs (Note 23)	(13,907)	-
At end of year	15,640	29,174

There are 3 key contractual milestones for all of these projects as follows:

- 1st milestone – The third party research companies are required to submit all research reports and supporting documents for the Group's in-house R&D team to assess the technical feasibility of developing the selected drugs before the initial deposits can be approved for disbursement. These deposits will serve to fund the development phase of the selected drugs and are accounted for as "refundable deposits"..
- 2nd milestone – The third party research companies are required to complete the conduct of clinical trial tests and prepare all submission documents. The third party research companies will be required to hand over and coordinate with the Group's R&D team to enable the submission for regulatory review and approval. Deposits at 2nd milestone are accounted for as "product development in-progress" in intangible assets.
- 3rd milestone – The third party research companies are required to transfer approved patents and manufacturing rights to the Group to complete registration requirements with the relevant authority. Deposits at this milestone are accounted for as "deferred development costs" in intangible assets.

The realisation of the above refundable deposits is dependent on the successful outcome of the development and/or eventual acquisition of the drugs and medical know-how. The status of these deposits are summarised as follows:

Refundable deposit I

The Group has received full refund during the financial year ended 31 December 2017.

Refundable deposits II

This group of deposits comprises deposits mainly made in respect of 10 separate on-going projects and 6 separate new projects paid to 7 third party research companies. The third party research companies are required to complete the R&D and hand over to the Group the necessary documents and materials for the purpose of submission to the regulatory authority within the next 12 to 18 months of entering into the contract. Failure to do so is a breach of contract which entitles the Group to a full refund of the amount paid so far. During the year, the Group decided to discontinue 9 on-going projects due to the change in government regulation (as disclosed in Note 9), resulting in commercial disadvantages and a partial refund of RMB 5,300,000 was obtained during the year. The remaining amount of RMB 2,367,000 to be refunded by October 2018 based on the termination agreement signed was classified as refundable deposits (current assets). Consequently, the remaining amount of RMB 13,907,000 was written off as bad debt as disclosed in Note 23.

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12. REFUNDABLE DEPOSITS / OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (Continued)

Refundable deposits II (Continued)

As at 31 December 2017, these deposits paid to 2 new third party research companies are still at the 1st milestone. The Group expects the deposits to be realised beyond the operating cycle of 18 months. Accordingly, they are classified as refundable deposits under non-current assets and non-financial assets.

The amount committed based on the contracts to be payable upon reaching the required milestone is disclosed in Note 29(i).

13. DUE FROM A SUBSIDIARY (NON-TRADE)

	Company	
	2017	2016
	RMB'000	RMB'000
At beginning of year	18,000	18,000
Less: Allowance for impairment loss	(18,000)	-
At end of year	-	18,000

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2017	2016
	RMB'000	RMB'000
At 1 January, at cost	-	43,674
Additions	31,000	52,500
Redemption	(31,000)	(94,612)
Loss on redemption (Note 25)	-	(1,562)
At 31 December	-	-

During the year, the Group invested in certain non-principal protected financial products with several local PRC financial institutions. Such investments have a tenure ranging from 1 month to 10 months (2016: 1 month to 6 months) with an option to terminate or redeem early. The yield rates of the investments ranged between 2.9% and 4.5% per annum. As the financial products are non-principal protected with variable returns, which are held by the Group for investment purposes, rather than for trading, the Group has designated these investments as available-for-sale financial assets.

All available-for-sale financial assets have been fully redeemed as at 31 December 2017 and 31 December 2016.

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15. CASH AND BANK BALANCES

	Group		Company	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank	23,217	34,957	10,171	31,289
Cash in hand	5	28	-	-
Fixed deposit	45,739	34,685	45,739	34,685
Cash and cash equivalents per consolidated statement of cash flows	68,961	69,670	55,910	65,974

As at 31 December 2017, the Group has bank balances of RMB 13,046,000 (2016: RMB 3,669,000) deposited with banks in the PRC that are denominated in RMB. The RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of settlement, sale and payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

The other currency profile of cash and bank balances is disclosed in Note 30(i)(a). Fixed deposit earns interest income at a fixed rate of 1.38% (2016: 1.29%) per annum and has tenure of 1 year (2016: 1 year).

16. TRADE AND OTHER PAYABLES

	Group		Company	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	9,451	8,663	-	-
VAT payable	3,028	1,884	-	-
Other payables	16,407	8,795	-	-
Accruals (Note A)	23,077	2,638	1,829	1,109
Advances from customers	4,800	1,775	-	-
	56,763	23,755	1,829	1,109

Note A

Included in the Group's accruals are accrued marketing and distribution expenses amounting to RMB 19,360,000 (2016: Nil) which was due to the implementation of "Two-invoices" system during the financial year by relevant authorities in PRC. "Two-invoices" system was introduced to streamline the chain of pharmaceutical products delivery which caused the commissioned distribution channel to be carried only once. This also explained marketing and distribution expenses amounting to RMB 31,329,000 (2016: Nil) incurred by the Group which were recorded as selling and distribution expenses.

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17. SHORT-TERM BORROWING

	Group	
	2017	2016
	RMB'000	RMB'000
Unsecured borrowing	-	12,000

On 22 November 2016, the Group took up an unsecured loan from a third party amounting to RMB 12,000,000. Interest was charged at 4.32% per annum. The loan was fully repaid on 22 May 2017.

Reconciliation of liabilities arising from financing activities

	As at 1 January 2017	Financing cash flows	As at 31 December 2017
	RMB'000	RMB'000	RMB'000
Short term borrowing	12,000	(12,000)	-

18. DEFERRED TAX

The components and movements of deferred tax liabilities and assets during the financial year are as follows:

Deferred tax liabilities of the Group	Fair value adjustment on property, plant and equipment
	RMB'000
2017	
At beginning of year	42
Recognised in profit or loss	(42)
At end of year	-
2016	
At beginning of year	121
Recognised in profit or loss	(79)
At end of the year	42

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18. DEFERRED TAX (Continued)

Deferred tax assets of the Group	Book over tax depreciation on intangible assets and property, plant and equipment	Accrued marketing expenses	Intangible assets and refundable deposits written off	Total
	RMB'000	RMB'000	RMB'000	RMB'000
2017				
At beginning of year	1,220	-	-	1,220
Recognised in profit or loss	(150)	2,900	810	3,560
At end of year	1,070	2,900	810	4,780
2016				
At beginning of year	1,567	-	-	1,567
Recognised in profit or loss	(347)	-	-	(347)
At end of year	1,220	-	-	1,220

19. REVENUE

Revenue comprises mainly sales of pharmaceutical products, net of VAT.

	Group	
	2017	2016
	RMB'000	RMB'000
Sale of antibiotics	24,052	20,099
Sale of cardiovascular drugs and cerebrovascular drugs	3,731	2,968
Sale of other specialised drugs	65,538	38,611
	93,321	61,678

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20. OTHER OPERATING INCOME

	Group	
	2017	2016
	RMB'000	RMB'000
Subcontracting service income	495	365
Government grants	1,058	950
Rental income from investment properties (Note 6)		
- Related party	970	687
- Third party	41	-
Others	423	10
	2,987	2,012

21(a). SELLING AND DISTRIBUTION EXPENSES

	Group	
	2017	2016
	RMB'000	RMB'000
Employee benefit cost	2,786	2,310
Insurance	541	509
Conference fees	501	228
Promotion expenses	683	348
Marketing and distribution expenses	31,329	-
Transportation	792	879
Travelling expenses	516	1,065
Others	676	514
	37,824	5,853

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21(b). ADMINISTRATIVE EXPENSES

	Group	
	2017	2016
	RMB'000	RMB'000
Audit fees	1,006	992
Depreciation of property, plant and equipment (Note 5)	1,918	1,194
Depreciation of lease prepayment (Note 8)	76	-
Depreciation of investment property (Note 6)	308	230
Directors' fee (Note 28)	473	467
Key management remuneration other than directors' fee (Note 28)	1,725	1,908
Insurance	508	605
Professional fees	500	628
Rental expenses (Note 28)	970	687
Repair and maintenance	106	95
Research and development fees	357	-
Salaries, wages and bonus	3,134	3,758
Travelling expenses	484	648
Transportation expenses	431	397
Allowance for doubtful debts – other receivables	300	-
Inventory written down (Note 10)	102	634
Entertainment	1,063	661
Overheads expensed off	757	526
Others	2,318	2,013
	16,536	15,443

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22. PERSONNEL EXPENSES

	Group	
	2017	2016
	RMB'000	RMB'000
Salaries, wages and bonus *	13,325	13,198
Defined contribution retirement plans *	4,470	4,112
	17,795	17,310

* Includes directors and other key management personnel remuneration as disclosed in Note 28.

Personnel expenses directly attributable to the research and development activities of the Group for the financial year amount to RMB 2,715,000 (2016: RMB 2,402,000).

23. OTHER OPERATING EXPENSES

	Group	
	2017	2016
	RMB'000	RMB'000
Loss on disposal of property, plant and equipment, net	11	15
Intangible assets written off (Note 9)	6,677	-
Refundable deposits written off (Note 12)	13,907	-
New product research cost	359	515
Others	187	19
	21,141	549

24. FINANCE INCOME

	Group	
	2017	2016
	RMB'000	RMB'000
Interest income on:		
- Available-for-sale financial assets	168	1,736
- Bank balances	471	21
Foreign exchange gain		
- Unrealised foreign exchange gain on bank balances	-	2,334
- Realised foreign exchange loss	-	(217)
	639	3,874

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25. FINANCE COSTS

	Group	
	2017	2016
	RMB'000	RMB'000
Loss on redemption of available-for-sale financial assets (Note 14)	-	1,562
Interest expense	-	56
Bank charges	21	38
Foreign exchange loss		
- Unrealised foreign exchange loss on bank balances	3,418	-
- Realised foreign exchange gain	(14)	-
	3,425	1,656

26. INCOME TAX (CREDIT) / EXPENSE

	Group	
	2017	2016
	RMB'000	RMB'000
Current tax		
- Current year	1,240	930
- Over provision in prior year	(49)	-
Deferred tax (Note 18)		
- Origination and reversal of temporary differences	(3,602)	268
	(2,411)	1,198

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26. INCOME TAX (CREDIT) / EXPENSE (Continued)

The reconciliation of the tax (credit) / expense and the product of accounting (loss) / profit before tax multiplied by the applicable rate is as follows:

	Group	
	2017	2016
	RMB'000	RMB'000
Accounting (loss) / profit before tax	(23,256)	3,790
Income tax based on applicable tax rate of 15% (2016: 15%) in PRC	(3,488)	569
Effect in tax rate in foreign jurisdiction	(141)	23
Tax effect of non-deductible expenses	1,327	562
Income not subject to tax	(55)	(38)
Over provision in prior year tax in prior years	(49)	-
Others	(5)	82
Income tax (credit) / expense	(2,411)	1,198

The Company is subject to applicable tax rate of 17%. It's subsidiary, Hainan STAR, is entitled to a reduced tax rate of 15% as it is located in the Hainan Special Economic Zone in the PRC.

27. (LOSS) / EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	Group	
	2017	2016
Net (loss) / profit attributable to equity holders of the Company (RMB '000)	(20,845)	2,592
Weighted average number of ordinary shares (in '000) outstanding for basic earnings per share	46,570	46,782
Basic (loss) / earnings per share (RMB cents)	(44.76)	5.54

As at 31 December 2017 and 2016, there is no dilutive or anti-dilutive instrument outstanding. The diluted (loss) / earnings per share is the same as the basic earnings per share.

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28. RELATED PARTY INFORMATION

In addition to information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties:

	Group	
	2017	2016
	RMB'000	RMB'000
Sales to a related party (Note A)	19,331	6,442
Subcontracting expenses charged to a related party	-	42
Rental income earned from a related party (Note A)	970	687
Rental paid to a related party (Note A)	(970)	(687)

Related party refers to an entity controlled or influenced by a Director who is also a shareholder of that entity during the financial year..

Note A

An investment property located in PRC (Note 6) was rented out to a related party and earned notional rental income amounting to RMB 970,000 (2016: RMB 687,000), in exchange for rental of office space and storage from the same related party of the same notional value.

	Group	
	2017	2016
	RMB'000	RMB'000
Key management personnel remuneration		
Directors of the Company:		
- Directors' fees	473	467
- Other short-term employee benefits	1,215	1,173
- Defined contribution retirement plans	13	13
	1,701	1,653
Other key management personnel:		
- Short-term employee benefits	510	735
- Defined contribution retirement plans	35	105
	2,246	2,493

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors of the Group.

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29. COMMITMENTS

(i) Future capital commitments

Capital expenditure contracted for as at 31 December 2017 but not recognised in the financial statements are as follows:

	Group	
	2017	2016
	RMB'000	RMB'000
In respect of:		
- product development in progress	17,827	21,466
- acquisition of property, plant and equipment	406	202
- construction in progress	-	3,314
	18,233	24,982

(ii) Non-cancellable operating lease commitments

As at the reporting date, the Group had commitments for future minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2017	2016
	RMB'000	RMB'000
Within 1 year	998	229
After 1 year but within 5 years	3,152	-

(iii) Non-cancellable operating lease receivables

The Group leased out its investment property to a third party under non-cancellable operating leases. The future aggregate minimum lease receivables under non-cancellable operating leases contracted for at the reporting date but not recognised as receivables, as follows:

	Group	
	2017	2016
	RMB'000	RMB'000
Not later than 1 year	246	-
Later than 1 year and not later than 5 years	963	-

The lease are for 5 years at fixed rate and renewal for another 2 years at S$4,368 per month. No contingent rent are charged.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

30. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk, including principal changes in interest rates, foreign exchange rates, liquidity and credit risks. Generally, management continuously monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved.

As the Group's exposure to market risk is kept at a minimum, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

Exposure to market risk (including foreign exchange risk and interest rate risk), liquidity risk and credit risk arises in the normal course of the Group's business. The Group does not have a hedging policy.

The categories of financial instruments are loans and receivables and available-for-sale financial assets for financial assets and financial liabilities at amortised cost.

(i) Market risk

(a) Foreign exchange risk

Most of the Group's transactions are denominated in RMB. The Group's exposure to market risk resulting from changes in foreign currency exchange rates relates primarily to its bank balances and other payable and accruals in foreign currencies. The Group reviews its foreign currency exposures regularly and does not use derivative financial instruments to hedge this risk. The Group has no other significant foreign exchange risk other than the cash and bank balances which are denominated in United States Dollar, Hong Kong Dollar and Singapore Dollar respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

30. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

The following table set out the amounts denominated in currencies of the entities within the Group for the respective financial year:

Group 2017	Chinese Renminbi	Singapore Dollar	Hong Kong Dollar	United States Dollar	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets					
Trade receivables	8,995	-	-	-	8,995
Other receivables and deposits	3,298	31	-	-	3,329
Cash and bank balances	13,051	4,410	747	50,753	68,961
	25,344	4,441	747	50,753	81,285
Financial liabilities					
Trade and other payables	(47,326)	(1,543)	(66)	-	(48,935)
Net financial (liabilities) / assets	(21,982)	2,898	681	50,753	32,350
Less: Net financial liabilities denominated in the respective entities' functional currency	21,982	-	-	-	21,982
Foreign currency exposure	-	2,898	681	50,753	54,332

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

30. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Group 2016	Chinese Renminbi	Singapore Dollar	Hong Kong Dollar	United States Dollar	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets					
Trade receivables	2,198	-	-	-	2,198
Other receivables and deposits	8,478	-	-	-	8,478
Cash and bank balances	3,696	2,124	440	63,410	69,670
	14,372	2,124	440	63,410	80,346
Financial liabilities					
Trade and other payables	(19,107)	(884)	(105)	-	(20,096)
Short term borrowing	(12,000)	-	-	-	(12,000)
	(31,107)	(884)	(105)	-	(32,096)
Net financial (liabilities) / assets	(16,735)	1,240	335	63,410	48,250
Less: Net financial liabilities denominated in the respective entities' functional currency	16,735	-	-	-	16,735
Foreign currency exposure	-	1,240	335	63,410	64,985

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

30. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Company 2017	Chinese Renminbi	Singapore Dollar	Hong Kong Dollar	United States Dollar	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets					
Other receivables	-	44	-	-	44
Cash and bank balances	-	4,410	747	50,753	55,910
	-	4,454	747	50,753	55,954
Financial liabilities					
Accruals	(220)	(1,543)	(66)	-	(1,829)
Net financial (liabilities) /assets	(220)	2,911	681	50,753	54,125
Less: Net financial assets denominated in the Company's functional currency	220	-	-	-	220
Foreign currency exposure	-	2,911	681	50,753	54,345

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

30. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Company 2016	Chinese Renminbi	Singapore Dollar	Hong Kong Dollar	United States Dollar	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets					
Due from subsidiary (non-trade)	18,000	-	-	-	18,000
Cash and bank balances	-	2,124	440	63,410	65,974
	18,000	2,124	440	63,410	83,974
Financial liabilities					
Accruals	(120)	(884)	(105)	-	(1,109)
Net financial assets	17,880	1,240	335	63,410	82,865
Less: Net financial assets denominated in the Company's functional currency	(17,880)	-	-	-	(17,880)
Foreign currency exposure	-	1,240	335	63,410	64,985

Foreign exchange risk sensitivity

The following table demonstrates a 5% (2016: 5%) strengthening of RMB against the following currencies at the reporting date. 5% (2016: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of a reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% (2016: 5%) change in foreign currency rates.

If the Chinese Renminbi strengthens by 5% (2016: 5%) against the relevant foreign currency with all other variables held constant, profit or loss will increase / (decrease) by:

	2017 Loss net of tax	2016 Profit net of tax
	RMB'000	RMB'000
Group		
Singapore Dollar	123	(53)
Hong Kong Dollar	29	(14)
United States Dollar	2,157	(2,695)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

30. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

	2017	2016
	Loss net of tax	Profit net of tax
	RMB'000	RMB'000
Company		
Singapore Dollar	123	(53)
Hong Kong Dollar	29	(14)
United States Dollar	2,157	(2,695)

A weakening of the Chinese Renminbi against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amount shown above, on the basis that all other variables remain constant.

(b) Interest rate risk

The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure. The Group constantly monitors its interest rate risk and does not utilise interest rate swap or other arrangements for trading or speculative purposes. As at 31 December 2017 and 2016, there were no such arrangements, interest rate swap contracts or other derivative instruments outstanding.

The Group's exposure to interest rate risk is not significant and relates primarily to the interest-bearing fixed deposit and interest on short-term borrowing.

(ii) Liquidity risk

The Group monitors its liquidity risk and maintains a level of cash and bank balances deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows. Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations.

All the financial liabilities of the Group and the Company as at 31 December 2017 and 2016 are repayable on demand or due within 1 year from the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

30. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's major classes of financial assets are bank balances and trade and other receivables. The Group's bank balances are deposited with reputable financial institutions in the PRC, Hong Kong and Singapore. Bills receivables (Note 11) are redeemable from state-owned or listed commercial banks in the PRC. Therefore credit risks arise mainly from the inability of its customers to make payment when due.

The Group's credit risk is limited as majority of customers make payments in advance. For customers on credit, the Group has established credit limits for customers and monitors their balances regularly. The Group performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers. The impairment allowance for trade debts is based upon a review of the expected collectability of all trade receivable which includes assessing the current credit worthiness and past collection history of the customers.

The average credit period on sales of goods is nil (2016: 30 days). No interest is charged on the trade receivables.

The age analysis of trade receivables (excluding bills receivables) is as follows:

	Group	
	2017 RMB'000	2016 RMB'000
Not past due and not impaired	-	1,962
Past due but not impaired		
- Past due 0 to 3 months	6,798	8
- Past due 3 to 6 months	1,598	6
- Past due over 6 months	220	-
	8,616	1,976

The amounts that are past due but not impaired and neither past due nor impaired represents balances owing from customers with good credit standing with the Group and these amounts are deemed fully recoverable.

The amounts that are neither past due nor impaired mainly represents balances owing from customers with active frequent transactions that have good track record, and these amounts are deemed fully recoverable.

As the Group and Company does not hold any collateral, the maximum exposure to credit risk is represented by the carrying amount of each financial asset on the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

30. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

The Group's trade receivables included amount owing from 4 debtors (2016: 1 debtor) which are pharmaceutical distributors located in PRC that represented 82% (2016: 77%) of trade receivables.

- Included in refundable deposits (current assets) is an amount of RMB 2,367,000 (2016: RMB 7,000,000) to be refunded by a research company located in PRC due to termination of projects.

Other than as disclosed above, there is no significant concentration of credit risks as at reporting date.

(iv) Financial instruments by category

The carrying amount of the different categories of financial instruments is as disclosed on the face of the statement of financial position:

	Group		Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Loans and receivables	81,285	80,346	55,954	83,974
Financial liabilities at amortised cost	48,935	32,096	1,829	1,109

Capital risk management policies and objectives

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued capital, statutory reserves and accumulated losses as disclosed in Notes 3(a), 4(a) and 4(b).

The Board of Directors reviews the capital structure on an annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

The Group's overall strategy remains unchanged from 2016.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

31. FAIR VALUES DISCLOSURE

Fair value hierarchy

The Group classify fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy have the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Except for the determination of fair value of the investment properties for disclosure as shown in Note 6, the Group and the Company does not have financial assets and financial liabilities measured at fair value or with fair value disclosed.

The carrying amounts of other financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and bank balances, short-term borrowing and trade and other payables) are assumed to approximate their fair values because of the short period to maturity.

32. SEGMENTAL INFORMATION

The Group's sole business segment operates only in the PRC. Revenue of approximately RMB 23,560,000 (2016: RMB 16,834,000) was derived from one (2016: two) external customers in PRC respectively. Details and breakdown of the Group's revenue by products are as disclosed in Note 19.

STATISTICS OF SHAREHOLDINGS

AS AT 16 MARCH 2018

Issued and Fully Paid-up Capital	:	S$31,372,977
Number of Ordinary Shares (excluding treasury share and subsidiary holdings)	:	46,491,699
Number of Treasury Shares Held and percentage	:	333,300 (0.72%)
Number of Subsidiary Holdings and percentage	:	Nil
Class of Shares	:	Ordinary
Voting Rights	:	One Vote per share

DISTRIBUTION OF SHAREHOLDERS BY SIZE OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 99	4	0.37	201	0.00
100 - 1,000	209	19.61	137,425	0.30
1,001 - 10,000	608	57.04	2,668,740	5.74
10,001 - 1,000,000	240	22.51	13,019,093	28.00
1,000,001 AND ABOVE	5	0.47	30,666,240	65.96
TOTAL	**1,066**	**100.00**	**46,491,699**	**100.00**

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	RAFFLES NOMINEES (PTE.) LIMITED	14,148,666	30.43
2	PHILLIP SECURITIES PTE LTD	10,585,100	22.77
3	CHENG YE	2,906,820	6.25
4	DBS NOMINEES (PRIVATE) LIMITED	1,925,654	4.14
5	ANG KONG BENG @ ANG KONG ENG	1,100,000	2.37
6	TAN KIM CHIANG	641,400	1.38
7	HSBC (SINGAPORE) NOMINEES PTE LTD	611,908	1.32
8	CITIBANK NOMINEES SINGAPORE PTE LTD	552,140	1.19
9	MAYBANK KIM ENG SECURITIES PTE LTD	503,007	1.08
10	OCBC SECURITIES PRIVATE LIMITED	359,900	0.77
11	OCBC NOMINEES SINGAPORE PRIVATE LIMITED	261,200	0.56
12	CUI YONGJIE	257,600	0.55
13	HEN TICK COLDSTORAGE PTE LTD	244,800	0.53
14	ENG KOON HOCK	219,100	0.47
15	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	216,400	0.47
16	UOB KAY HIAN PRIVATE LIMITED	209,000	0.45
17	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	202,600	0.44
18	LOH POAY HUAN	200,000	0.43
19	FOO WILLIAM	190,000	0.41
20	TAN BOON KIM	180,000	0.39
	TOTAL	**35,515,295**	**76.40**

STATISTICS OF SHAREHOLDINGS

SUBSTANTIAL SHAREHOLDERS AS AT 16 MARCH 2018

(As recorded in the Register of Substantial Shareholders)

No.	Name	Direct Interest No. of shares held	%	Deemed Interests No. of shares held	%
1.	Xu Zhi Bin [(1)]	-	-	14,000,000	30.11
2.	Wang Qi [(2)]	-	-	10,400,000	22.37
3.	Cheng Ye	2,906,820	6.25	-	-

Notes:

[(1)] Mr Xu Zhi Bin is deemed to have an interest in the 14,000,000 shares which is held by DB Nominees (Singapore) Pte Ltd for EFG Bank on his behalf.

[(2)] Mr Wang Qi is deemed to have an interest in the 10,400,000 shares which is held by Phillip Securities Pte. Ltd. on his behalf.

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

As at 16 March 2018, 41.08% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST which requires 10% of the equity securities (excluding preference shares and convertible equity securities) in a class that is listed to be in the hands of the public.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting **("AGM")** of STAR Pharmaceutical Limited **("Company")** will be held at Six Battery Road #10-01 Singapore 049909, on Friday, 27 April 2018 at 3.00 p.m. to transact the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Audited Financial Statements and the Directors' Statement of the Company and the Group for the financial year ended 31 December 2017 together with the Auditors' Report thereon. **(Resolution 1)**

2. To re-elect the following Directors of the Company retiring pursuant to Regulation 89 of the Constitution of the Company:

   Mr. Xu Zhi Bin **(Resolution 2)**
   Mr. Meng Tao **(Resolution 3)**

   [See Explanatory Note (i)]

3. To approve the payment of Directors' fees of S$96,900 (equivalent to RMB 473,171) for the financial year ended 31 December 2017 [2016: S$98,158 (equivalent to RMB466,519)] **(Resolution 4)**

4. To re-appoint Messrs Crowe Horwath First Trust LLP, as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 5)**

5. To transact any other ordinary business which may properly be transacted at an AGM.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

6. **Authority to allot and issue shares in the capital of the Company pursuant to Section 161 of the Companies Act, Chapter 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited.**

   That pursuant to Section 161 of the Companies Act, Chapter 50 **("Companies Act")** and Rule 806(2) of the Listing Manual of the Singapore Exchange Securities Trading Limited **("SGX-ST")**, the Directors of the Company be authorised and empowered to:

   (a) (i) issue shares in the Company **("shares")** whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, **"Instruments"**) that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

   at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and

NOTICE OF ANNUAL GENERAL MEETING

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors of the Company while this Resolution was in force,

("Share Issue Mandate")

provided that:

(1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) and Instruments to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares and Instruments to be issued other than on a pro rata basis to existing shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares and Instruments that may be issued under sub-paragraph (1) above, the percentage of issued shares and Instruments shall be based on the number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

(a) new shares arising from the conversion or exercise of the Instruments or any convertible securities;

(b) new shares arising from exercising share options or vesting of share awards outstanding and subsisting at the time of the passing of this Resolution; and

(c) any subsequent consolidation or subdivision of shares;

(3) in exercising the Share Issue Mandate conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution of the Company; and

(4) unless revoked or varied by the Company in a general meeting, the Share Issue Mandate shall continue in force (i) until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of the Instruments.

[See Explanatory Note (ii)] **(Resolution 6)**

7. **Proposed Renewal of Share Purchase Mandate**

That:

(a) for the purposes of Section 76C and 76E of the Companies Act, the exercise by the Directors of the Company of all the powers of the Company to purchase or otherwise acquire the issued and fully-paid ordinary shares in the capital of the Company **("Shares")** not exceeding in aggregate the Maximum percentage (as defined below), at such price(s) as may be determined by the Directors from time to time up to the Maximum Price (as defined below), whether by way of:-

NOTICE OF ANNUAL GENERAL MEETING

(i) on-market purchases, transacted through the SGX-ST trading system, through one or more duly licensed stock brokers appointed by the Company for that purpose **("Market Purchase")**; and/or

(ii) off-market purchases pursuant to an equal access scheme in accordance with Section 76C of the Companies Act **("Off-Market Purchase")**,

and otherwise in accordance with all other laws and regulations and rules of the SGX-ST as may for the time being be applicable, be and is hereby authorised and approved generally and unconditionally **(the "Share Purchase Mandate")**;

(b) unless varied or revoked by the Company in a general meeting, the authority conferred on the Directors of the Company pursuant to the Share Purchase Mandate may be exercised by the Directors at any time and from time to time during the period commencing from the date of the passing of this Resolution and expiring on the earliest of:-

(i) the date on which the next AGM of the Company is held or required by law to be held;

(ii) the date on which the purchase or acquisition of Shares by the Company pursuant to the Share Purchase Mandate are carried out to the full extent mandated;

(iii) the date on which the authority conferred by the Share Purchase Mandate is varied or revoked by shareholders of the Company in a general meeting;

whichever is the earliest;

(c) in this Resolution:-

"Average Closing Price" means the average of the closing market prices of a Share over the last five Market Days (**"Market Day"** being a day on which the SGX-ST is open for trading in securities) on which the Shares are transacted on the SGX-ST, immediately preceding the date of the Market Purchase by the Company or, as the case may be, the date of the making of the offer pursuant to the Off-Market Purchase, and deemed to be adjusted, in accordance with the rules of the SGX-ST, for any corporate action that occurs after the relevant five-day period;

"date of the making of the offer" means the date on which the Company makes an offer for the purchase or acquisition of Shares from holder of Shares, stating therein the relevant terms of the equal access scheme for effecting the Off-Market Purchase;

"Maximum Percentage" means that number of issued Shares representing 10% of the total number of issued Shares as at the date of the passing of this Resolution (excluding any Shares which are held as treasury shares and subsidiary holdings as at that date);

"Maximum Price" in relation to a Share to be purchased or acquired, means the purchase price (excluding brokerage, commission, applicable goods and services tax and other related expenses) which shall not exceed:-

(i) in the case of a Market Purchase, 105% of the Average Closing Price of the Shares; and

(ii) in the case of an Off-Market Purchase, 120% of the Average Closing Price of the Shares;

NOTICE OF ANNUAL GENERAL MEETING

(d) the Directors and/or any one of them be and are hereby authorised to deal with the Shares purchased or acquired by the Company pursuant to the Share Purchase Mandate in any manner as they think fit, which is permissible under the Companies Act; and

(e) the Directors of the Company and/or any of them be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) as they and/or he may consider expedient or necessary to give effect to the transactions contemplated and/or authorised by this Resolution.

[See Explanatory Note (iii)] **(Resolution 7)**

By Order of the Board

Shirley Tan Sey Liy
Company Secretary
Singapore, 11 April 2018

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes:

(i) Mr. Meng Tao will, upon re-election as Director of the Company, remain as the Chairman of the Remuneration Committee and a member of the Audit Committee and Nominating Committee and will be considered independent for the purpose of Rule 704(8) of the Listing Manual of the SGX-ST.

(ii) Resolution 6, if passed, will empower the Directors of the Company from the date of this AGM until the date of the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant instruments convertible into shares and to issue shares pursuant to such instruments, up to a number not exceeding in total fifty per centum (50%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company, of which up to twenty per centum (20%) may be issued other than on a pro rata basis to shareholders of the Company.

For determining the aggregate number of shares that may be issued, the percentage of issued shares in the capital of the Company will be calculated based on the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time this Resolution is passed after adjusting for new shares arising from the conversion or exercise of the Instruments or any convertible securities, the exercise of share options or the vesting of share awards outstanding or subsisting at the time when this Resolution is passed and any subsequent consolidation or subdivision of shares.

(iii) Resolution 7 above, if passed, will empower the Directors of the Company from the date of this AGM until the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held, whichever is the earlier, to repurchase ordinary shares of the Company by way of market purchases or off-market purchases of up to ten per centum (10%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the Maximum Price as defined in the Appendix. The rationale for, the authority and limitation on, the sources of funds to be used for the purchase and acquisition including the amount of financing and the financial effects of the purchase or acquisition of ordinary shares by the Company pursuant to the Share Purchase Mandate on the audited consolidated financial statements of the Group for the financial year ended 31 December 2017 are set out in greater detail in the Appendix.

Notes:

1. A Member of the Company (other than a Relevant Intermediary*) entitled to attend and vote at the Annual General Meeting **("Meeting")** is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. A Relevant Intermediary may appoint more than 2 proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified).

3. A member of the Company which is a corporation is entitled to appoint its authorised representative or proxy to vote on its behalf. The appointment of proxy must be executed under seal or the hand of its duly authorised officer or attorney in writing.

4. The instrument appointing a proxy must be deposited at the registered office of the Company at Six Battery Road #10-01 Singapore 049909 not less than forty-eight (48) hours before the meeting.

NOTICE OF ANNUAL GENERAL MEETING

* A Relevant Intermediary is:

a) a banking corporation licensed under the Banking Act (Chapter 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or

b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Chapter 289) and who holds shares in that capacity; or

c) the Central Provident Fund Board established by the Central Provident Fund Act (Chapter 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

Personal Data Privacy
Where a member of the Company submits an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, proxy lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, **"Purposes"**), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

STAR PHARMACEUTICAL LIMITED
(Company Registration No. 200500429W)
(Incorporated In the Republic of Singapore)

PROXY FORM

(Please see notes overleaf before completing this Form)

IMPORTANT:
1. An investor who holds shares under the Central Provident Fund Investment Scheme ("CPF Investors") and/or the Supplementary Retirement Scheme ("SRS Investors") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.
2. This Proxy Form is not valid for use by CPF and SRS Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

I/We, ... (Name) .... (NRIC/Passport)

of .... (Address)

being a member/members of **STAR PHARMACEUTICAL LIMITED ("Company")**, hereby appoint:

NAME	NRIC/PASSPORT NUMBER	PROPORTION OF SHAREHOLDINGS TO BE PRESENTED BY PROXY	
		NO. OF SHARES	%
ADDRESS			

and/or (delete as appropriate)

NAME	NRIC/PASSPORT NUMBER	PROPORTION OF SHAREHOLDINGS TO BE PRESENTED BY PROXY	
		NO. OF SHARES	%
ADDRESS			

as *my/our *proxy/proxies to vote for *me/us on *my/our behalf at the Annual General Meeting (**the "Meeting")** of the Company to be held at Six Battery Road #10-01 Singapore 049909 on Friday, 27 April 2018 at 3.00 p.m. and at any adjournment thereof. *I/We direct *my/our *proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the *proxy/proxies will vote or abstain from voting at *his/her discretion.

NO.	RESOLUTIONS RELATING TO:	NO. OF VOTES 'FOR'**	NO. OF VOTES 'AGAINST'**
Ordinary Business			
1	Audited Financial Statements for the financial year ended 31 December 2017		
2	Re-election of Mr. Xu Zhi Bin as a Director		
3	Re-election of Mr. Meng Tao as a Director		
4	Approval of Directors' fees amounting to S$96,900 (equivalent to RMB 473,171) for the financial year ended 31 December 2017		
5	Re-appointment of Crowe Horwath First Trust LLP as Auditors and authority to Directors to fix their remuneration		
Special Business			
6	Authority to allot and issue shares		
7	Proposed renewal of Share Purchase Mandate		

***If you wish to exercise all your votes "For" or "Against", please tick (✓) within the box provided. Alternatively, please indicate the number of votes as appropriate.*

Dated this .... day of 2018

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

....

Signature of Shareholder(s)
and/or Common Seal of Corporate Shareholder

**Delete where inapplicable*

IMPORTANT: PLEASE READ NOTES OVERLEAF

Notes:

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. A member of the Company (other than a Relevant Intermediary*), entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

3. Where a member (other than a Relevant Intermediary*) appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.

4. A Relevant Intermediary may appoint more than 2 proxies, but each proxy must be appointed to exercise the rights attached to a different share or shares held by him (which number and class of shares shall be specified)

5. Subject to note 9, completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.

6. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at Six Battery Road #10-01 Singapore 049909 not less than forty-eight (48) hours before the time appointed for the Meeting.

7. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

8. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, and the person so authorised shall upon production of a copy of such resolution certified by a director of the corporation to be a true copy, be entitled to exercise the powers on behalf of the corporation so represented as the corporation could exercise in person if it were an individual.

9. An Investor who holds shares under the Central Provident Fund Investment Scheme (**"CPF Investors"**) and/or the Supplementary Retirement Scheme (**"SRS Investors"**) (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.

* A Relevant Intermediary is:

a) a banking corporation licensed under the Banking Act (Chapter 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity; or

b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Chapter 289) and who holds shares in that capacity; or

c) the Central Provident Fund Board established by the Central Provident Fund Act (Chapter 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at seventy-two (72) hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

PERSONAL DATA PRIVACY

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 11 April 2018.

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STAR PHARMACEUTICAL LIMITED

Co. Reg. No. 200500429W
Six Battery Road
#10-01 Singapore 049909

http://www.star-pharm.com
http://www.hnstar.com.cn