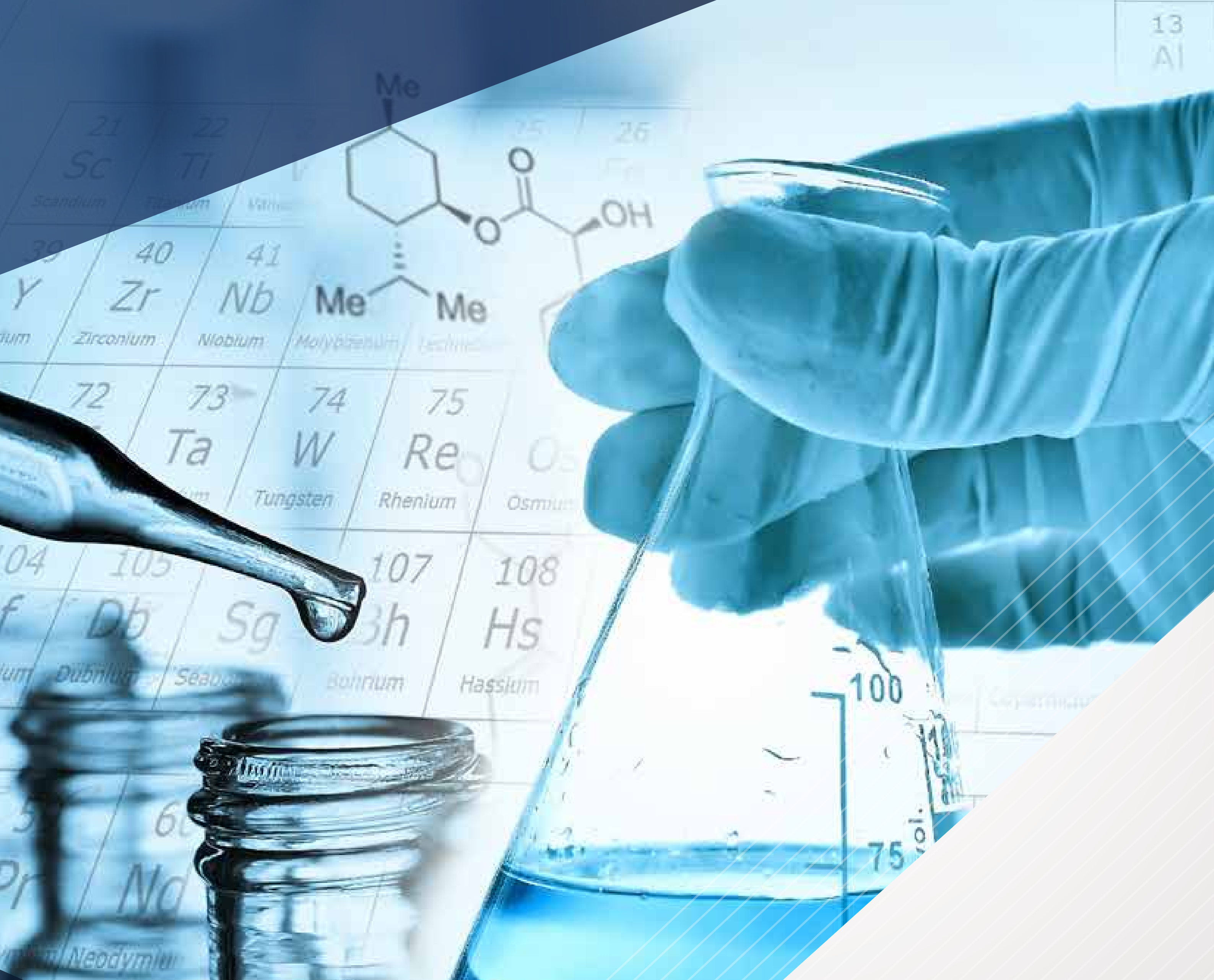


Annual
Report
2018

CREATING POSSIBILITIES

STAR PHARMACEUTICAL LIMITED

STAR

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 1391 distributors to hospitals, clinics and pharmacies. The Group also operates 29 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.

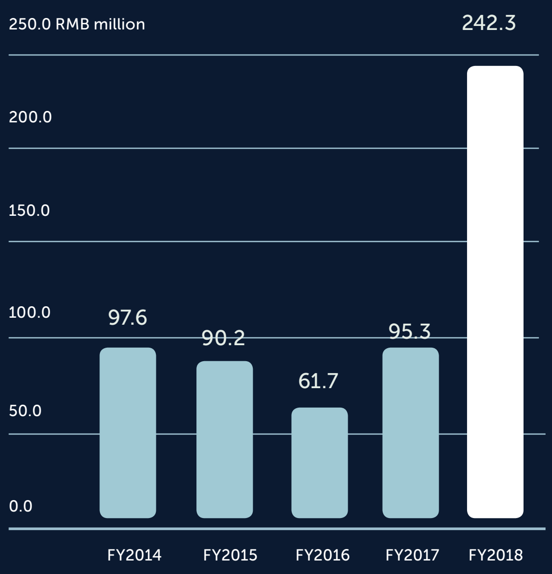
The Group enjoys a reputable standing in the pharmaceutical industry, as a State Level High Tech Enterprise. Over the years, it has received numerous industry awards which recognise the innovative, quality products that the Group brings to the pharmaceutical market.

FINANCIAL HIGHLIGHTS

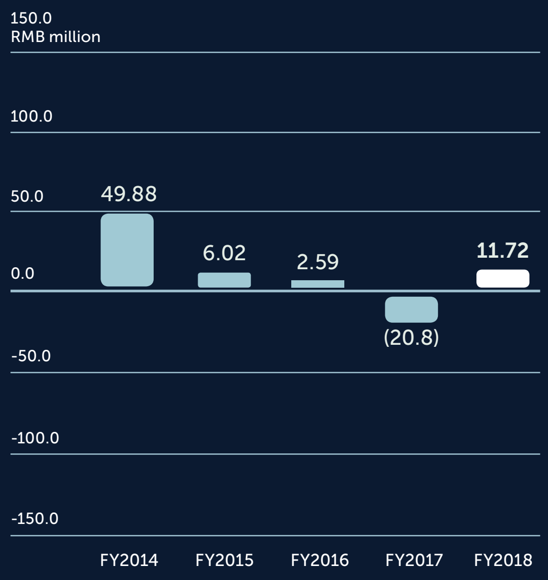
	31 December 2018 (RMB'000)	31 December 2017 (RMB'000)	31 December 2016 (RMB'000)	Change
PROFIT & LOSS ACCOUNTS HIGHLIGHTS				
Revenue	242,311	95,294	61,678	154.3%
Gross profit	180,922	52,539	21,405	244.4%
Gross margin	75%	55%	35%	
Selling & distribution expenses	151,654	37,824	5,853	300.9%
Profit/(loss) before income tax	10,706	(23,256)	3,790	-146.0%
Profit/(loss) for the year	11,721	(20,845)	2,592	-156.2%
Net margin	5%	-22%	4%	
BALANCE SHEET HIGHLIGHTS				
Non-current assets	92,887	79,282	86,580	
Current assets	179,967	112,191	104,895	
Current liabilities	126,797	56,763	35,755	
Non-current liabilities	-	-	42	
Equity attributable to equity holders	146,057	134,710	155,678	
CASH FLOWS HIGHLIGHTS				
Cash flows from operating activities	34,707	26,029	8,276	
Cash flows (used in) / from investing activities	(19,089)	(11,197)	37,244	
Cash flows (used in) / from financing activities	(116)	(12,123)	11,830	
Net increase/(decrease) in cash & cash equivalents	15,502	2,709	57,350	
Cash & cash equivalents at beginning of the year	68,961	69,670	9,807	
Cash & cash equivalents at end of the year	87,070	68,961	69,670	
OTHER KEY STATISTICS				
Profit / (Loss) per share basic (RMB cents)	25.24	(44.76)	5.54	
Net asset value per share (RMB cents)	314.57	289.74	334.0	
Weighted average number of shares	46.43m	46.49m	46.78m	
Return on equity	8%	-15%	2%	
Return on assets	4%	-11%	1%	
Current ratio (times)	1.42	1.98	2.93	

FINANCIAL HIGHLIGHTS

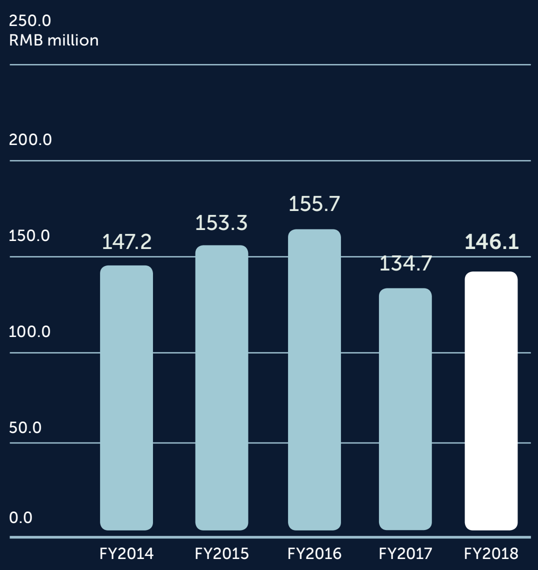
GROUP REVENUE



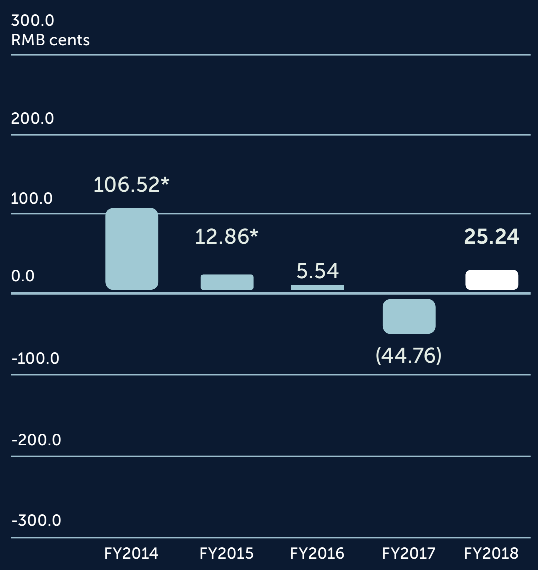
NET PROFIT/(LOSS)



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)
Tan Wen Wen (Non-Executive Director)
Ng Poh Khoon (Lead Independent Director)
Meng Tao (Independent Director)

AUDIT COMMITTEE
Ng Poh Khoon (Chairman)
Meng Tao
Tan Wen Wen

NOMINATING COMMITTEE
Meng Tao (Chairman)
Ng Poh Khoon
Tan Wen Wen

REMUNERATION COMMITTEE
Ng Poh Khoon (Chairman)
Tan Wen Wen
Meng Tao

COMPANY SECRETARY
Shirley Tan Sey Liy (ACS)

REGISTERED OFFICE
Six Battery Road
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Tel: (65) 6381 6972
Fax: (65) 6381 6899

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

SHARE REGISTRAR
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9 Raffles Place #29-01
Republic Plaza Tower,
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

The year ended 31 December 2018 was a challenging yet fruitful one for the Group. In 2017, the China government implemented the "Two-Invoice System" to streamline the delivery chain of pharmaceutical products and bring down drug prices. This prompted pharmaceutical companies to adjust their sales processes and promote sales of their products more actively. In response to this change in national policy, the Group reorganised its sales department and engaged with customers more closely during the year. As a result, the Group achieved higher sales across all drug segments to bring about a 154.3% increase in revenue to RMB242.3 million and 244.4% increase in gross profit to RM181.0 million. Due to higher selling and marketing expenses incurred in the increased sales, selling and distribution expenses increased from RMB 37.8 million in 2017 to RMB151.7 million. Overall, the Group recorded a net profit attributable to equity holders of RMB11.7 million as compared to a net loss attributable to equity holders of RMB20.8 million in 2017.

OPERATIONAL HIGHLIGHTS

The Group made good progress in the production, sales as well as research and development (R&D) of its products during the year. Acetylcysteine Solution for Inhalation was given production approval and obtained two exclusive specifications from National Medical Products Administration (NMPA), the national agency for regulating drugs and medical devices. Rocuronium Bromide Injection is currently being reviewed by Centre for Drug Evaluation (CDE) of NMPA and is expected to obtain approval in 2019. When approved, it will expand the Group's range of anaesthetic products and is expected to contribute positively to the Group's revenue. The Group also started generic-drug-consistency evaluation for two products and commenced R&D on several new products, of which two products under R&D are expected to be submitted to NMPA in 2019 for application. In addition, Vecuronim Bromide for Injection was conferred the Hainan High-tech Product certificate for its excellent quality.

On the corporate social responsibility front, the Group partnered with Hainan Medical University, Hainan Technology and Business College as well as Hainan Institute of Science and Technology to offer internship programmes. Through these, the Group hired 28 capable fresh graduates as part of its continuous effort to recruit talent for business expansion. The Group also opened up more than 100 jobs to the citizens of Qionghai City in Hainan province to enhance their quality of life.

OUTLOOK

2019 is expected to be yet another challenging year for the pharmaceutical industry in China as the government implemented requirements for purchase with target quantity and generic-drug-consistency evaluation of listed chemicals at the end of 2018. If a particular drug of the company fails to be registered in the purchase-with-target-quantity list, it will lose market share; and if it gets registered, its price will see a significant reduction. In addition, if a particular drug of the company does not get approved at the generic-drug-consistency evaluation, its sales may be discontinued. In view of these policy changes, there will be stricter requirements in R&D, production and sales.

Under the "Two-Invoice System", the Group's sales and distribution expenses is expected to increase significantly and trade receivables period will see a longer extension. These will put further pressure on the Group's cash flow.

To overcome these challenges, the Group will continue to invest in and accelerate its R&D efforts to roll out new products into the market, shortlist new projects for R&D, expedite generic-drug-consistency evaluation of listed chemicals, as well as actively make strategic adjustments to its sales and marketing team. The Group will also continue to extensively promote sales of Acetylcysteine Solution for Inhalation and build up its market share. In addition, the Group has taken appropriate measures to cope with the government's new requirements in purchase with target quantity and generic-drug-consistency evaluation of listed chemicals. In 2018, the Group was able to successfully adapt and adjust to the "Two-Invoice System" policy, and I am confident that the Group will be able to once again rise above the challenges ahead.

ACKNOWLEDGEMENTS

During the year, Mr. Li Qing Ming ceased to be General Manager of Hainan STAR Pharmaceutical Co., Ltd. due to personal health reasons. I would like to take this opportunity to thank him for his contributions to the Group as well as wish him all the best in his future endeavours and speedy recovery. In closing, I would also like to thank management and staff for their hard work and dedication, as well as business partners, investors and all other stakeholders for their continued and kind support to the Group.

XU ZHI BIN
EXECUTIVE CHAIRMAN

OPERATIONS REVIEW

OPERATIONAL HIGHLIGHTS

During the year, the Group made good progress in the production, sales and R&D of its products. The Group obtained production approval as well as two exclusive specifications for Acetylcysteine Solution for Inhalation from NMPA. Rocuronium Bromide Injection is currently being reviewed by CDE and is expected to obtain approval in 2019. The Group also started generic-drug-consistency evaluation for two products and R&D on several new products, of which two products under R&D are expected to be submitted to NMPA in 2019 for application.

SEGMENTAL PERFORMANCE

The Group's revenue rose 154.3% to RMB242.3 million mainly due to increased sales across its three drug segments: antibiotics drugs, cardiovascular drugs and cerebrovascular drugs, as well as other specialised drugs.

Revenue from antibiotics drugs increased 22% to RMB29.4 million mainly due to increased sales in Azithromcyin Aspartate for Injection and Sultamicrillin Tosilate Tablets which helped to partially offset effect of decreased sales in Cefepime Hydrochloride for Injection. Antibiotics drugs accounted for 12% of the Group's revenue and was the Group's second largest revenue contributor.

Revenue from cardiovascular drugs and cerebrovascular drugs increased 84% to RMB6.9 million due to increased sales in Vinpocetine for Injection. This segment accounted for 3% of the Group's revenue.

Other specialised drugs revenue increased 214% to RMB206.0million. This is mainly due to increased sales in Potassium Sodium Dehydroandrographolide Succinate for Injection and commencement in sales of Acetylcysteine Solution for Inhalation, both of which contributed to the majority of the Group's sales in 2018. Revenue from Potassium Sodium Dehydroandrographolide Succinate for Injection rose mainly due to higher selling price under the "Two-Invoice System" as well as higher sales volume from more aggressive marketing during the year. The Group successfully registered for manufacturing rights of Acetylcysteine Solution for Inhalation in the first quarter and commenced sales in the second quarter of 2018. Overall, other specialised drugs continued to be the largest contributor of the Group's revenue at 85%.

FUTURE PLANS

2019 is expected to be yet another challenging year for the pharmaceutical industry in China due to requirements for purchase with target quantity and generic-drug-consistency evaluation implemented by the government in 2018 as well as the "Two-Invoice System". If a particular drug of the company fails to be registered in the purchase-with-target-quantity list, it will lose market share; and if it gets registered, its price will see a significant reduction. In addition, sales of a particular of the company may be discontinued if it does not get approved at the generic-drug-consistency evaluation. Going forward, the Group's cash flow will face further pressure as sales and distribution expenses is expected to increase significantly and trade receivables period will see a longer extension due to the "Two-Invoice System".

To overcome these challenges, the Group will continue to invest in and accelerate its R&D efforts to roll out new products, shortlist new projects for R&D, expedite generic-drug-consistency evaluation of listed chemicals, as well as actively make strategic adjustments its sales and marketing team. The Group will also continue to extensively promote sales of Acetylcysteine Solution for Inhalation to build up its market share. In addition, the Group will continue to take appropriate measures and make necessary changes to cope with any policy changes introduced by the government.

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 23 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 22 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 TAN WEN WEN, NON-EXECUTIVE DIRECTOR

Ms. Tan Wen Wen ("Ms. Tan") was appointed as our Non-Executive Director on 1 March 2019. Ms. Tan has over 30 years of experience in the Pharmaceutical industry. She is currently the General Manager of Beijing Shenghuajie Industry & Trade Co., Ltd. From 2006 to 2008, Ms. Tan was the Manager of Dalian Meiluo Pharmaceutical Co., Ltd., where she was responsible for the sales and management of all products of the company in Beijing region. From December 1998 to 2006, Ms. Tan was Area business manager of HaiNan TongYong San Yang Pharmaceutical Co., Ltd., where she was responsible for the marketing and management of hospitals in Beijing. From 1995 to 1997, Ms. Tan was Sales representative of Drug Supply Station of Chinese People's Liberation Army General Logistics Department Medicine Supply Station General Logistics, where she was responsible for the sales of some hospitals in Beijing. Ms. Tan graduated from the Nursing School of Fuyang City, Hunan Province. Ms. Tan hold the Qualification Certificate of Speciality and Technology and also hold a Master's Degree in Business Administration from Romain University of China.

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.

He has over 20 years of experience in auditing, financial management, sales & business development, investor relations, fund raising and merger and acquisition activities. Mr. Ng is also currently the Independent Director and the Chairman of the Audit Committee of Nutryfarm International Limited and China Star Food Group Limited, a company listed on the mainboard and catalist board of SGX-ST respectively. Mr. Ng is a Chartered Accountant and a member of the Institute of Singapore Chartered Accountants and Singapore Institute of Directors. He 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 21 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.

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.

On 6 August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance 2018 ("**2018 Code**") and accompanying Practice Guidance. The 2018 Code applies to annual reports covering financial years commencing from 1 January 2019. The Group will review and set out the corporate practices in place to comply with the 2018 Code, where appropriate, in the next Annual Report.

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 fulfill 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:

(a) Approve the Group's corporate and strategic directions;
(b) Approval of the Group's annual report, quarterly and full-year financial result announcements for release to the SGX-ST;
(c) Ensure management leadership of high quality, effectiveness and integrity;
(d) Approve investment and divestment proposals;
(e) Appointment of Board members and key managerial personnel;
(f) Ensuring an effective risk management framework is in place;
(g) Review financial performance and implement financial policies which incorporate risk management, internal controls and reporting compliance; and
(h) 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 Committee**") 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 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.

CORPORATE GOVERNANCE

The attendances of the Directors at the Board meetings and Board Committees meetings held during the financial year ended 31 December 2018 ("**FY2018**") 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	4	4*	1	1*	1	1*
Wang Qi	4	4	4	4*	1	1*	1	-
Ng Poh Khoon	4	4	4	4	1	1	1	1
Li Tak Tai Leada[1]	4	3	4	3	1	1	1	1
Meng Tao	4	4	4	4	1	1	1	1

*By invitation.
[1] Ms. Li Tak Tai Leada has resigned as the Non-Executive Director on 1 March 2019.

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 or 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 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:-

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	27 April 2018	-	-	-
Wang Qi	Executive Director	1 March 2017	27 April 2017	-	-	-
Tan Wen Wen	Non- Executive Director	1 March 2019	-	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	27 April 2018	Member	Chairman	Member

Independent Directors

The Company is in line with the Guideline 2.1 of the Code and Rule 210(5)(c) of the Listing Manual of the SGX-ST, which the Independent Directors are making up one-third of the Board. 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 Board is of the view that the present size and composition of the Board and Board Committees facilitate effective decision making are appropriate for the nature and scope of the Company's operations.

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.

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

CORPORATE GOVERNANCE

Non-Executive Directors 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 Directors 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 with 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 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:

(a) Scheduling of meetings to enable the Board to perform its duties responsibly while not interfering with the flow of the Group's operations;
(b) Ensuring that Directors receive accurate, timely and clear information, and ensuring effective communication with shareholders;
(c) Ensuring the Group's compliance with the Code;
(d) Monitors communications and relations between the Board and the Management; and
(e) 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 and Mr. Meng Tao as the Chairman of the Audit Committee and Nominating Committee, respectively. 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 (Resigned with effect from 1 March 2019)
Tan Wen Wen (Appointed with effect from 1 March 2019)

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:

(a) The considerable amount of experience and wealth of knowledge that the independent director brings to the Company;
(b) The attendance and active participation in the proceedings and decision making process of the Board and Committee Meetings;
(c) 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;
(d) The qualification and expertise provides reasonable checks and balances for the Management;
(e) 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
(f) The independent director provides overall guidance to Management and act as safeguard for the protection of Company's assets and shareholders' interests.

In this regard, the NC with the concurrence of the Board has reviewed the 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 and independent of the Management.

CORPORATE GOVERNANCE

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.

There is no alternate director being appointed to the Board.

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. Ng Poh Khoon and Ms. Tan Wen Wen, be nominated for re-election at the forthcoming AGM. The Board had accepted the NC's recommendations.

Mr. Ng Poh Khoon and Ms. Tan Wen Wen, being the members of the NC, who are retiring at the AGM is abstained from voting on the resolution in respect of their 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 28 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. 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.

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

CORPORATE GOVERNANCE

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 Form 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-nomination of Directors for FY2018 are based on their attendance and contributions made at the Board, Board Committees meetings and the Group as a whole.

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.

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.

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 (Resigned with effect from 1 March 2019)
Tan Wen Wen (Appointed with effect from 1 March 2019)

CORPORATE GOVERNANCE

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 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.

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.

The Executive Director 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. The variable component is determined based on the performance of the individual employee as well as the Group's performance.

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.

CORPORATE GOVERNANCE

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 FY2018 are approximately as follows:

Name of Director	Financial Year ended 31 December 2018 S$	Financial Year ended 31 December 2017 S$
Xu Zhi Bin	216,000	216,000
Wang Qi	24,436	20,479
Li Tak Tai Leada	36,000	36,000
Ng Poh Khoon	36,000	36,000
Meng Tao	24,436	24,575

A breakdown summary of each individual Director's remuneration, in percentage terms showing the level and mix for FY2018 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	-	100	-	-	100
Li Tak Tai Leada[(1)]	100	-	-	-	100
Ng Poh Khoon	100	-	-	-	100
Meng Tao	100	-	-	-	100

Notes:
(1) Ms. Li Tak Tai Leada has resigned as Non-Executive Director on 1 March 2019.

Remuneration below S$250,000	Salary S$	Bonus S$	Other Benefits S$	Total S$
Lui Che Kin	74,545	-	-	74,545
Li Qing Ming[(1)]	14,254	-	-	14,254

Notes:
(1) Mr. Li Qing Ming has resigned as the General Manager on 17 July 2018.

CORPORATE GOVERNANCE

The aggregate amount of the total remuneration paid to the Key Management Personnel (who are not Directors or the CEO) for FY 2018 was S$88,799. 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 has one key management personnel (who are not the Directors or the CEO) and the profile of this key management personnel is provided on page 12 of the Annual Report.

For FY2018, 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 the 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.

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 the FY2018 give a true and fair view in all material aspects of the Company's operations and finances; and
(b) The Company's risk management and internal controls systems are adequate and operating effectively in all material aspects given its current business environment.

CORPORATE GOVERNANCE

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 the financial year ended 31 December 2018 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 (Resigned with effect from 1 March 2019)
Tan Wen Wen (Appointed with effect from 1 March 2019)

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.

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 re-appointment at the forthcoming AGM.

CORPORATE GOVERNANCE

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$12,500 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 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.

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 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 approves the hiring, removal, evaluation and compensation of the internal auditor, who has unfettered access to all the Company's documents, records, properties and personnel, including access to the AC. The AC is satisfied that the internal audit function is (i) independent, (ii) staffed by suitably qualified and experienced professionals with the relevant experience and (iii) adequately resourced and has appropriate standing within the Company to perform its function effectively.

CORPORATE GOVERNANCE

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 and effective internal controls, including financial, operational, compliance and information technology control and risk management, are in place.

The AC would annually review the independence, 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.

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 AGM 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 FY2018 as the Company wishes to conserve cash for the future potential development and adequate resources for the ongoing business.

CORPORATE GOVERNANCE

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 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.

To enhance shareholder participation, the Company puts all resolutions at general meetings 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. The Company had adopted manual polling for the resolutions voted at the AGM held during FY2018.

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.

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 FY2018 to Rule 907 of the Listing Manual of the SGX-ST 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.	RMB1,546,000	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 2018

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

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	27 April 2018	-	-
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	27 September 2005	27 April 2017	• Nutryfarm International Limited (formerly known as Lottvision Limited) • China Star Food Group Limited	-
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	27 April 2018	-	-
Ms. Tan Wen Wen	Qualification Certificate of Speciality and Technology MBA of Remain University of China	Non-Executive Director	Board member, member of the Audit Committee, Nominating Committee and Remuneration Committee	1 March 2019	-	-	-

CORPORATE GOVERNANCE

	Name of Director	
Details	**Ng Poh Khoon**	**Tan Wen Wen**
Date of Appointment	27 September 2005	1 March 2019
Date of last re-appointment (if applicable)	27 April 2017	-
Age	52	49
Country of principal residence	Singapore	China
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination	The Board of the Company has accepted the NC's recommendation, who has reviewed and considered Mr. Ng is able to exercise judgement as the Independent Director on the corporate affairs of the Group and independent of the Management. The Board considers Mr. Ng to be independent for the purpose of Rule 704(8) of the Listing Manual of the SGX-ST.	The Board of the Company has accepted the NC's recommendation, who has reviewed and considered Ms. Tan's qualification, working experiences and her capabilities that she is able to contribute to the Company as the Non-Executive Director of the Company.
Whether appointment is executive, and if so, the area of responsibility	Non-Executive.	Non-Executive.
Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)	Independent Director, Chairman of the Audit Committee and Remuneration Committee, Member of the Nominating Committee	Non-Executive Director, Member of the Audit Committee, Nominating Committee and Remuneration Committee
Professional qualifications	- Chartered Accountant - Member of Institute of Singapore Chartered Accountant - Member of Singapore Institute of Director - Fellow member of the Association of Chartered Certified Accountants, United Kingdom	- Qualification Certificate of Speciality and Technology - MBA of Renmin University of China
Working experience and occupation(s) during the past 10 years	**November 2016 to present:** Project Director at Guangdong Chengde Financial Advisory Co Ltd **July 2013 to September 2015:** Chief Financial Officer at Asia Fashion Holdings Limited **November 2012 to June 2013:** Director, IR at Youbinsheng Green Paper AG **January 2012 to October 2012:** Director, Export Sales at Passion Group of Companies **November 2008 to December 2011:** Chief Financial Officer at Passion Holdings Limited	**2008 to present:** General manager at Beijing Shenghuajie Industry and Trade Co., Ltd. **2006 to 2008:** Head of representative office at Dalian Meiluo Pharmaceutical Co., Ltd. **1998 to 2006:** Senior sales manager at HaiNan TongYong San Yang Pharmaceutical Co., Ltd.
Shareholding interest in the listed issuer and its subsidiaries	Nil	Nil
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	Nil	Nil
Conflict of interest (including any competing business)	Nil	Nil
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer	Yes	Yes

CORPORATE GOVERNANCE

		Name of Director	
Details		**Ng Poh Khoon**	**Tan Wen Wen**
Other Principal Commitments Including Directorships		**Present** - Independent Director of Nutryfarm International Limited - Independent Director of China Star Food Group Limited	Nil
The general statutory disclosures of the Directors are as follows:			
a.	Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?	No	No
b.	Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	No	No
c.	Whether there is any unsatisfied judgment against him?	No	No
d.	Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	No	No

CORPORATE GOVERNANCE

		Name of Director	
Details		**Ng Poh Khoon**	**Tan Wen Wen**
	Whether at any time during the last 10 years, judgment has been enteredagainst him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	No	No
e.	Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	No	No
f.	Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	No	No
g.	Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	No	No
h.	Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of :—		
	i. any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	No	No
	ii. any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	No	No
	iii. any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or	No	No

CORPORATE GOVERNANCE

		Name of Director	
Details		**Ng Poh Khoon**	**Tan Wen Wen**
	iv. any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?	No	No
i.	Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	No	No
Information required **Disclosure applicable to the appointment of Director only.**			
Any prior experience as a director of an issuer listed on the Exchange?		Yes	No
If yes, please provide details of prior experience		Independent Director of: • Nutryfarm International Limited (formerly known as Lottvision Limited) • China Star Food Group Limited	N/A
If no, please state if the director has attended or will be attending training on the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange.		N/A	The Company will arrange Ms. Tan to attend the relevant training on the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange.

Consolidated Financial Statements

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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 2018 and the statement of financial position of the Company as at 31 December 2018.

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 44 to 104 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 2018 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
Ng Poh Khoon	Lead Independent Non-Executive Director
Meng Tao	Independent Non-Executive Director
Li Tak Tai Leada	Non-Executive Director (resigned on 1 March 2019)
Tan Wen Wen	Non-Executive Director (appointed on 1 March 2019)

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 2018	At 31 December 2018	At 21 January 2019	At 1 January 2018	At 31 December 2018	At 21 January 2019
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	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 2018

DIRECTORS' STATEMENT (Continued)

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.

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.

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) (resigned on 1 March 2019)

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 2018 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 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.

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

DIRECTORS' STATEMENT (Continued)

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

22 March 2019

INDEPENDENT AUDITOR'S 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 44 to 104, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2018, 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 Singapore Financial Reporting Standards (International) (SFRS(I)s) 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 2018 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 AUDITOR'S REPORT

TO THE MEMBERS OF STAR PHARMACEUTICAL LIMITED

Key Audit Matters (Continued)

Occurrence of marketing and distribution expenses (Note 20(a) and Note 16 to the financial statements)	***How we addressed the risk***
The revenue of Star Pharmaceutical Ltd ("the Group") has increased by 159% (2017: 51%) to RMB 242,311,000 (2017: RMB 95,294,000) due to general increase in selling price of drugs, coupled by higher sale quantity achieved during the year. The Group relies heavily on various distributors and agents to promote the sales of its pharmaceutical products. As a result of the implementation of "Two-invoice System" ("the System") in last financial year by the government of the People's Republic of China, the Group has since 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 136,064,000 (2017: RMB 31,329,000) (Note 20(a) to the financial statements). The accrued marketing and distribution expenses as at 31 December 2018 amounted to RMB 67,078,000 (2017: RMB 19,360,000) (Note 16 to the financial statements). In view of the 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 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. Review of sales and distribution contracts to understand the nature of the services provided by these marketing agents and distributors; 4. Performing analytical procedures to test reasonableness of marketing and distribution expenses incurred by making comparison with the Group's estimated planned expenses by province; 5. 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; 6. Performing re-computation of management's calculation of the accrued selling and distribution expenses; 7. Conducting background searches on material distributors and marketing agents; and 8. Circularisation of confirmation requests to 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 AUDITOR'S REPORT

TO THE MEMBERS OF STAR PHARMACEUTICAL LIMITED

Key Audit Matters (Continued)

Impairment review of intangible assets and refundable deposits (Note 9 and Note 12 to the financial statements)	***How we addressed the risk***
As at 31 December 2018, the Group recorded carrying amounts of intangible assets and refundable deposits of RMB6,898,000 and RMB25,687,000 (2017: RMB5,801,000 and RMB15,640,000) respectively, which represented active development projects undertaken by the Group in current financial year. Management performed annual impairment test on intangible assets and refundable deposits to assess whether impairment is required. This is a key audit matter due to significant management's estimation involved in the key inputs used in the cash flows projection. Changes in the key inputs may trigger potential impairment of intangible assets and refundable deposits. The key estimates and assumptions are disclosed in Note 9 to the financial statements.	Our audit effort was focused on the management's judgement in assessing the commercial viability of these product development projects. Our audit procedures cover both existing and new projects, which include the following: 1. Obtaining a full list of development projects undertaken by the Group during the year; 2. Identifying the new projects and match the project list to the respective new contracts signed by the Group with the third-party 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 the respective research companies to relevant supporting documents; 5. Circularisation of confirmation requests to research companies to authenticate material refundable deposit balances. As for the deposits which are to be refunded, perform subsequent receipts review; 6. Review of research status reports produced by the research companies to understand the status of product development work to validate management's representations regarding technical viability of these projects;

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF STAR PHARMACEUTICAL LIMITED

Key Audit Matters (Continued)

<table>
<tr><th>Impairment review of intangible assets and refundable deposits (Note 9 and Note 12 to the financial statements)</th><th>How we addressed the risk</th></tr>
<tr><td></td><td>7. Review of valuation reports produced by external professional valuer for all existing and new development projects, as summarised below:

- Making inquiries with the valuer on justifications for key assumptions adopted in deriving at the value in-use of the projects.

- Assessing the key inputs used in the cash flow projections such as product selling price, anticipated sale quantity, product margin, length of product lifespan by reference to external source of information and financial budget approved by management;

- Understand from management the status, likely timing of product commercialisation and regulatory changes that may affect the progress of product development, to determine whether any such changes would materially affect the recoverable amount.

- Comparing the current year results with the prior year forecast to identify any significant deviations from that of the actual financial results and confirm circumstance for revisions of forecast and projections, if any, are consistent with management's business plan.

8. We have also stress-tested key assumptions in cash flow projections to evaluate the extent of changes of key assumptions have on the cash flows that may trigger impairment.

Based on the outcome of the above procedures, we noted that management's impairment assessment to be reasonable.</td></tr>
</table>

INDEPENDENT AUDITOR'S 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 SFRS(I)s, 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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF STAR PHARMACEUTICAL LIMITED

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.

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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF STAR PHARMACEUTICAL LIMITED

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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

22 March 2019

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	Group		Company	
		2018	2017	2018	2017
		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)	(409)	(293)	(409)	(293)
Statutory reserves	4(a)	23,740	22,669	-	-
Accumulated losses	4(b)	(22,249)	(32,641)	(4,840)	(3,790)
TOTAL EQUITY		146,057	134,710	139,726	140,892
ASSETS					
Non-current assets					
Property, plant and equipment	5	42,456	42,521	-	-
Investment properties	6	11,601	12,293	9,700	10,160
Investment in a subsidiary	7	-	-	76,607	76,607
Lease prepayments	8	538	614	-	-
Intangible assets	9	6,898	5,801	-	-
Refundable deposits	12	25,120	13,273	-	-
Deferred tax assets	17	6,274	4,780	-	-
Financial assets, at FVPL	14(a)	- *	-	-	-
		92,887	79,282	86,307	86,767
Current assets					
Inventories	10	53,208	27,412	-	-
Trade receivables	11	34,816	8,995	-	-
Other receivables, deposits and prepayments	12	4,873	5,516	14	44
Income tax recoverable		-	1,307	-	-
Due from a subsidiary (non-trade)	13	-	-	-	-
Available-for-sale financial assets	14(b)	-	-	-	-
Financial assets, at FVPL	14(c)	-	-	-	-
Cash and bank balances	15	87,070	68,961	55,429	55,910
		179,967	112,191	55,443	55,954
TOTAL ASSETS		272,854	191,473	141,750	142,721

* Amount less than RMB1,000

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	Group		Company	
		2018	2017	2018	2017
		RMB'000	RMB'000	RMB'000	RMB'000
LIABILITIES					
Current liabilities					
Trade and other payables	16	126,443	56,763	2,024	1,829
Income tax payable		354	-	-	-
		126,797	56,763	2,024	1,829
TOTAL LIABILITIES		126,797	56,763	2,024	1,829
NET ASSETS		146,057	134,710	139,726	140,892

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 2018
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

		2018 RMB'000	2017 RMB'000 (Note 32)
Revenue	18	242,311	95,294
Cost of sales		(61,389)	(42,755)
Gross profit		180,922	52,539
Other operating income	19	2,251	2,492
Selling and distribution expenses	20(a)	(151,654)	(37,824)
Administrative expenses	20(b)	(19,390)	(16,236)
Impairment loss on financial assets	20(b)	(857)	(300)
Other operating expenses	22	(4,170)	(21,141)
Finance income	23	3,631	639
Finance costs	24	(27)	(3,425)
Profit / (Loss) before tax		10,706	(23,256)
Income tax credit	25	1,015	2,411
Profit / (Loss) for the year, representing total comprehensive income / (loss) for the year		11,721	(20,845)
Total comprehensive income / (loss) attributable to:			
Equity holders of the Company		11,721	(20,845)
Earnings / (Loss) per share (RMB cents)			
Basic and diluted	26	25.24	(44.76)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Attributable to equity holders of the Company				
	Share capital	Treasury shares	Statutory reserves	Accumulated losses	Total equity
Group	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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
As at 31 December 2017	144,975	(293)	22,669	(32,641)	134,710
Adjustment on initial application of SFRS(I) 9 (Note 33(2))	-	-	-	(258)	(258)
As at 1 January 2018	144,975	(293)	22,669	(32,899)	134,452
Profit for the year, representing total comprehensive income for the year	-	-	-	11,721	11,721
Purchase of treasury shares	-	(116)	-	-	(116)
Transfer to statutory reserves	-	-	1,071	(1,071)	-
As at 31 December 2018	144,975	(409)	23,740	(22,249)	146,057

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Profit / (Loss) before tax		10,706	(23,256)
Adjustments:			
Amortisation of deferred development costs	9	1,092	-
Amortisation of lease prepayments	8	76	76
Impairment loss on financial assets	20(b)	857	300
Allowance of stock obsolescence		209	102
Depreciation of property, plant and equipment	5	6,159	6,054
Depreciation of investment properties	6	692	308
Loss on disposal of property, plant and equipment		117	11
Property, plant and equipment written off		40	-
Intangible assets written off	9	-	6,677
Refundable deposits written off	12	-	13,907
Impairment loss on property, plant and equipment	5	1,491	-
Impairment loss on refundable deposits	12	600	-
Interest income		(1,024)	(639)
Unrealised foreign exchange (gain) / loss		(2,607)	3,418
Operating profit before working capital changes		18,408	6,958
Inventories		(26,005)	(5,193)
Trade and other receivables		(28,558)	(6,279)
Trade and other payables		69,680	33,008
Cash generated from operations		33,525	28,494
Income tax paid		(996)	(2,465)
Income tax refund		2,178	-
Net cash from operating activities		34,707	26,029
Cash flows from investing activities			
Purchase of property, plant and equipment (Note A)		(7,280)	(5,123)
Proceeds from disposal of property, plant and equipment		3	10
Payment of deposits for product manufacturing rights and technical know-how	12	(16,947)	(12,673)
Payment of development costs recognised as intangible assets	9	(5,189)	(10,350)
Refund of development cost previously capitalised as intangible asset	9	3,000	4,000
Refund of deposits from third party research companies	12	6,300	12,300
Purchase of available-for-sale financial assets		-	(31,000)
Proceeds from redemption of available-for-sale financial assets		-	31,000
Purchase of financial assets, at FVPL		(51,000)	-
Proceeds from disposal of financial assets, at FVPL		51,000	-
Interest received		1,024	639
Net cash used in investing activities		(19,089)	(11,197)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	2018 RMB'000	2017 RMB'000
Cash flows from financing activities			
Repayment of borrowing		-	(12,000)
Purchase of treasury shares	3(b)	(116)	(123)
Net cash used in financing activities		(116)	(12,123)
Net increase in cash and cash equivalents		15,502	2,709
Cash and cash equivalents at beginning of year		68,961	69,670
Effect of exchange rate changes on cash and cash equivalents		2,607	(3,418)
Cash and cash equivalents, representing cash and bank balances at end of year	15	87,070	68,961

<u>Note A</u>

		2018 RMB'000	2017 RMB'000
Total additions to property, plant and equipment (Note 5)		7,745	4,829
Less: (Decrease) / Increase in amounts prepaid for purchase of property, plant and equipment		(465)	294
Purchase of property, plant and equipment per consolidated statement of cash flows		7,280	5,123

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(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 Six 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 activity of the Company is that of investment holding. The principal activities of the subsidiary are those relating to the development, manufacturing and trading of pharmaceutical products.

The financial statements for the financial year ended 31 December 2018 were authorised for issue in accordance with a resolution by the Board of Directors on 22 March 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

These financial statements have been prepared in accordance with the Singapore Financial Reporting Standards (International) ("SFRS(I)") under the historical cost convention, except as disclosed in the accounting policies below. The financial statements are presented in Chinese Renminbi ("RMB"), rounded to the nearest thousand ("RMB'000") as indicated.

The preparation of the financial statements in conformity with SFRS(I) 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.26.

2.2. Adoption of SFRS(I)

As required by the listing requirements of Singapore Exchange, the Group has adopted SFRS(I) on 1 January 2018. These financial statements for the year ended 31 December 2018 are the first set of the financial statements to the Group prepared in accordance with SFRS(I). The Group's previously issued financial statements for periods up to and including the financial year ended 31 December 2017 were prepared in accordance with Financial Reporting Standards in Singapore ("FRS").

In adopting SFRS(I) on 1 January 2018, the Group is required to apply all of the specific transition requirements in SFRS(I) 1 First-time Adoption of SFRS(I). Under SFRS(I), these financial statements are required to be prepared using accounting policies that comply with SFRS(I) effective as at 31 December 2018. The same accounting policies are applied throughout all periods presented in these financial statements, subject to the mandatory exceptions and optional exemptions under SFRS(I) 1.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Chinese Renminbi ("RMB'000") unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. Adoption of SFRS(I) (Continued)

On 1 January 2018, the Group applied SFRS(I)s, interpretations of SFRS(I)s and the requirements of SFRS(I)s as disclosed in Note 33.

SFRS(I) 1 also allows the exemption from application of certain requirements under SFRS(I) on a retrospective basis. The Group has applied the following optional exemptions which are relevant in preparing this first set of financial statements in accordance with SFRS(I).

(a) Short-term exemption on adoption of SFRS(I) 9

The Group has elected to apply the short-term exemption to adopt SFRS(I) 9 on 1 January 2018. Accordingly, the requirements of FRS 39 Financial Instruments: Recognition and Measurement are applied to financial instruments up to the financial year ended 31 December 2017. The Group is also exempted from complying with SFRS(I) 7 Financial Instruments: Disclosure to the extent that the disclosures required by SFRS(I) 7 relate to the items within scope of SFRS(I) 9.

As a result, the requirements under FRS are applied in place of the requirements under SFRS(I) 7 and SFRS(I) 9 to comparative information about items within scope of SFRS(I) 9.

(b) Practical expedients on adoption of SFRS(I) 15

The Group has elected to apply the transitional provisions under paragraph C5 of SFRS(I) 15 at 1 January 2018 and have used the following practical expedients provided under SFRS(I) 15 as follows:

- for completed sales contracts with variable consideration, the Group has used the transaction price at the date the contract was completed, rather than estimating the variable consideration amounts in the comparative reporting period;
- for sales contracts which were modified before the date of transition, the Group did not retrospectively restate the contract for those contract modifications; and
- for the financial year ended 31 December 2017, the Group did not disclose the amount of transaction price allocated to the remaining performance obligations and explanation.

An explanation of how the transition to SFRS(I)s and application of SFRS(I) 9 and SFRS(I)15 have affected the reported financial position, financial performance and cash flows is provided in Note 33.

2.3. New standards and interpretations not yet adopted

A number of new standards and interpretations and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted the new or amended standards and interpretations in preparing these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Chinese Renminbi ("RMB'000") unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. New standards and interpretations not yet adopted (Continued)

The following new SFRS(I)s, interpretations and amendments to SFRS(I)s are effective for annual periods beginning after 1 January 2018:

(i) Applicable to 2019 financial statements
- SFRS(I) 16 Leases
- SFRS(I) INT 23 Uncertainty over Income Tax Treatments
- Long-term Interests in Associates and Joint Ventures (Amendments to SFRS(I) 1-28)
- Prepayment Features with Negative Compensation (Amendments to SFRS(I) 9)
- Previously Held Interest in a Joint Operation (Amendments to SFRS(I) 3 and 11)
- Income Tax Consequences of Payments on Financial Instruments Classified as Equity (Amendments to SFRS(I) 1-12)
- Borrowing Costs Eligible for Capitalisation (Amendments to SFRS(I) 1-23)
- Plan Amendment, Curtailment or Settlement (Amendments to SFRS(I) 1-19)

(ii) Applicable to 2020 financial statements
- Definition of a Business (Amendments to SFRS(I) 3)
- Definition of Material (Amendments to SFRS(I) 1-1 and 1-8)

(iii) Applicable to 2021 financial statements
- SFRS(I) 17 Insurance Contracts Mandatory effective date deferred • Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to SFRS(I) 10 and SFRS(I) 1-28). The Group has assessed the estimated impact that initial application of SFRS(I) 16 will have on the financial statements. The Group's assessment of SFRS(I) 16, which is expected to have a more significant impact on the Group, is as described below. SFRS(I) 16

(iv) Mandatory effective date deferred
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to SFRS(I) 10 and SFRS(I) 1-28).

Except for SFRS(I) 16 and SFRS(I) INT 23, 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 SFRS(I) 16 and SFRS(I) INT 23 is described below.

SFRS(I) 16 *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, SFRS(I) 16 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. SFRS(I) 16 is effective for annual reporting periods beginning on or after 1 January 2019. As at 31 December 2018, the Group has non-cancellable operating lease commitment of RMB2,512,000 as disclosed in Note 28(ii). A preliminary assessment indicates that these arrangements will meet the definition of a lease under SFRS(I) 16, and hence the Group will recognise a right-of-use asset within a corresponding liability in respect of all leases unless they qualify for low value or short-term leases upon the application of this new standard. Management has performed an assessment of the possible impact of implementing SFRS(I) 16. It is currently impractical to disclose any further information on the known or reasonably estimable impact to the Group's financial statements in the period of initial application as a detailed assessment is yet to be completed by management. The Group does not plan to early adopt the new SFRS(I) 16.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Chinese Renminbi ("RMB'000") unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. New standards and interpretations not yet adopted (Continued)

SFRS(I) INT 23: *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 determines 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). Management has performed an assessment of the possible impact of implementing SFRS(I) INT 23. It is currently impractical to disclose any further information on the known or reasonable estimable impact to the Group's financial statements in the period of initial application as a detailed assessment is yet to be completed by management. The Group does not plan to early adopt the new SFRS(I) INT 23.

2.4. Group accounting

(i) 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.

(ii) 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 SFRS(I) 9 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Chinese Renminbi ("RMB'000") unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4. Group accounting (Continued)

(ii) Acquisition of businesses (Continued)

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.

(iii) 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 result 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.

2.5. 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.

2.6. 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Chinese Renminbi ("RMB'000") unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6. Currency translation (Continued)

(ii) Transactions and balances (Continued)

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.

2.7. 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.

2.8. 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:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Chinese Renminbi ("RMB'000") unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8. Property, plant and equipment (Continued)

	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)".

2.9. 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.

2.10. 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Chinese Renminbi ("RMB'000") unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10. Intangible assets (Continued)

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.

2.11. 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 operating income / (expenses)".

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12. 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.

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.

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.

2.13. Financial assets

2.13.1. The accounting for financial assets before 1 January 2018 are as follows:

(a) Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition and in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13. Financial assets (Continued)

2.13.1. The accounting for financial assets before 1 January 2018 are as follows:

(a) Classification (Continued)

(i) Financial assets at fair value through profit or loss (Continued)

Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performances are evaluated on a fair value basis, in accordance with a documented Group investment strategy. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are presented as current assets if they are either held for trading or are expected to be realised within 12 months after the reporting date.

(ii) 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 presented as non-current assets. Loans and receivables are presented as "trade and other receivables" and "cash and cash equivalents" on the statement of financial position.

(iii) Financial assets, available-for-sale

Financial assets, available-for-sale are non-derivatives that are either designated in this category or not classified in any of the other categories. They 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.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is reclassified to profit or loss.

Trade receivables that are factored out to banks and other financial institutions with recourse to the Group are not derecognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

(c) Initial measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets at fair value through profit or loss are recognised immediately as expenses.

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2.13. Financial assets (Continued)

2.13.1. The accounting for financial assets before 1 January 2018 are as follows:

(d) Subsequent measurement

Financial assets, available-for-sale and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at fair value through profit or loss including the effects of currency translation, interest and dividends, are recognised in profit or loss when the changes arise.

Interest and dividend income on available-for-sale financial assets are recognised separately in income. Changes in the fair values of available-for-sale debt securities (i.e. monetary items) denominated in foreign currencies are analysed into currency translation differences on the amortised cost of the securities and other changes; the currency translation differences are recognised in profit or loss and the other changes are recognised in other comprehensive income and accumulated in the fair value reserve. Changes in the fair values of available-for-sale equity securities (i.e. non-monetary items) are recognised in other comprehensive income and accumulated in the fair value reserve, together with the related currency translation differences.

(e) Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a Group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

(i) Loans and receivables / Financial assets

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are objective evidence that these financial assets are impaired.
The carrying amount of these assets is reduced through the use of an impairment allowance account, which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

The impairment allowance is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

(ii) Financial assets, available-for-sale

In addition to the objective evidence of impairment, a significant or prolonged decline in the fair value of an equity security below its cost is considered as an indicator that the available-for-sale financial asset is impaired.

If there is an objective evidence of impairment, the cumulative loss that had been recognised in other comprehensive income is reclassified from equity to profit or loss. The amount of cumulative loss that is reclassified is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. The impairment losses recognised as an expense for an equity security are not reversed through profit or loss in subsequent period.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13. Financial assets (Continued)

2.13.2. The accounting for financial assets from 1 January 2018 onwards are as follows:

(i) Classification and measurement

Financial assets are classified and subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, at the following categories:

- Amortised costs
- Fair value through Other Comprehensive Income (FVOCI) – Debt investments
- FVOCI – Equity investments
- Fair value through profit or loss (FVPL)

Financial assets are not reclassified after initial recognition unless the Group changes its business model for managing financial assets, in which case such reclassification will be applied prospectively from the reclassification date.

(i) Financial assets at amortised costs

Unless designated at FVPL, financial assets are measured at amortised costs if:
- It is held within a business model with an objective to hold the assets to collect contractual cash flows; and
- Its contractual cash flows comprise of solely principal and interest on the principal amount outstanding.

These assets, mainly cash and cash equivalents, trade and other receivables, including amount due from a subsidiary, excluding prepayments and refundable deposits (current and non-current), are subsequently measured at amortised costs using the effective interest rate method, which is reduced by impairment losses. Interest income, foreign exchange differences, and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

(ii) Debt investments at FVOCI

Unless designated at FVPL, a debt investment is measured at FVOCI if: - It is held within a business model with objectives of both collecting contractual cash flows and selling financial assets; and - Its contractual cash flows comprise of solely principal and interest on the principal amount outstanding.

These assets are subsequently measured at fair value. Interest income calculated on effective interest rate method, foreign exchange differences and impairment are recognised in profit or loss. Other net gains and losses (including changes in fair value) are recognised in OCI. The cumulative amounts in OCI are reclassified to profit or loss upon derecognition.

(iii) Equity investments at FVOCI

Unless held-for-trading, the Group may irrevocably elect on initial recognition, on an investment-by-investment basis, to present subsequent changes of fair value of the equity investments in OCI.

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses (including changes in fair value) are recognised in OCI which will never be reclassified to profit or loss.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13. Financial assets (Continued)

2.13.2. The accounting for financial assets from 1 January 2018 onwards are as follows:

(a) Classification and measurement (Continued)

(iv) Financial assets at FVPL

All financial assets not at amortised cost or FVOCI as described above are measured at fair value through profit or loss. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI to be measured at FVPL, if doing so eliminates or significantly reduce accounting mismatch that would otherwise arise.

Financial assets held for trading or are managed and whose performance is evaluated on a fair value basis would be mandatorily measured at FVPL.

These assets are subsequently measured at fair value. Net gains or losses, including any interest income or dividend income are recognised in profit or loss.

(b) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt financial assets carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 29(iii) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by the SFRS(I) 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Simplified approach

The Group applies simplified approach for all trade receivables. Impairment loss allowance is measured at Life time ECL, which represents ECLs that result from all possible default events over the expected life of a financial instrument ('life-time ECL'). The Group has established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to those customers and the economic environment.

Impairment loss allowance or reversals are recognised in profit or loss. Loss allowance on financial assets at amortised cost are deducted from the gross carrying amount of those asset.

General approach

The Group applies general approach on all other financial instruments, and recognise a 12-month ECL on initial recognition. 12-months ECL are ECLs that result from possible default events within 12 months after the reporting date or up to the expected life of the instrument, if shorter.

Impairment loss allowance or reversals are recognised in profit or loss. Loss allowance on financial assets at amortised cost are deducted from the gross carrying amount of those asset. Loss allowance on debt investments at FVOCI are recognised in OCI, and does not reduce the carrying amount of the financial assets.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13. Financial assets (Continued)

2.13.2. The accounting for financial assets from 1 January 2018 onwards are as follows:

(b) Impairment (Continued)

For credit exposures for which there has been a significant increase in credit risk since initial recognition, impairment loss allowance is measured at life-time ECL. When a financial asset is determined to have a low credit risk at reporting date, the Group assumes that there has been no significant increase in credit risk since initial recognition. For other cases, the Group uses reasonable and supportable forward-looking information available without undue cost or effort to determine, at each reporting date, whether there is significant increase in credit risk since initial recognition. In assessing whether there has been significant increase in credit risks, the Group takes into account factors such as:

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the debtor's ability to meet its debt obligations
- actual or expected significant adverse change in the regulatory, economic, or technological environment that are expected to cause a significant change in the debtor's ability to meet its debt obligations
- an actual or expected significant change in the operating results of the debtors

Definition of default

The Group considers a financial asset to be in default for internal credit risk management purposes as historical experience indicates a receivable that meets either of the following criteria is potentially not recoverable.

- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full without recourse by the Group.
- The financial assets are more than 180 days past due, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in repayment plan with the Group. Where loans and receivables have been written off, the Group continues to engage enforcement procedures to recover the balances. When recoveries are made, these are recognised in profit or loss.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13.2. The accounting for financial assets from 1 January 2018 onwards are as follows:

(c) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

On disposal of a debt instrument, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is reclassified to profit or loss.

On disposal of an equity investment, the difference between the carrying amount and sales proceed is recognised in profit or loss if there was no election made to recognise fair value changes in other comprehensive income. If there was an election made, any difference between the carrying amount and sales proceed amount would be recognised in other comprehensive income and transferred to retained profits along with the amount previously recognised in other comprehensive income relating to that asset.

Trade receivables that are factored out to banks and other financial institutions with recourse to the Group are not derecognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

2.14. Financial liabilities

2.14.1. The accounting for financial liabilities before 1 January 2018 are as follows:

(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.

(ii) Subsequent measurement

Subsequent to initial recognition, other 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14. Financial liabilities (Continued)

2.14.2. The accounting for financial liabilities from 1 January 2018 onwards are as follows:

(i) Subsequent measurement

Financial liabilities are subsequently measured at amortised costs unless it is held for trading (including derivative liabilities), or designated as financial liabilities at FVPL on initial recognition to significantly reduce accounting mismatch or when a group of financial liabilities are managed whose performance is evaluated on a fair value basis.

Financial liabilities at amortised costs are subsequently measured at amortised costs using the effective interest rate method. Interest expense and foreign exchange differences are recognised in profit or loss. These financial liabilities mainly comprise trade and other payables.

Financial liabilities at FVPL are measured at fair value with net gains and losses (including interest expense) recognised in profit or loss. Directly attributable transaction costs are recognised in profit or loss as incurred.

(ii) Derecognition

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires. The Group also derecognise a financial liabilities when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount of the financial liabilities extinguished, or transferred and the consideration paid (including non-cash transferred or liabilities assumed) is recognised in profit or loss.

(iii) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15. 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.

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.

2.16. 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.

2.17. Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the promised goods or services underlying the particular performance obligation ("PO") is transferred to the customers, at an amount that reflects the transaction price allocated to the satisfied PO, of which the Group expects to be entitled in exchange for those goods or services. The Group concludes that it is acting as a principal in the provision of promised goods or services in its contracts with customers.

Revenue from sale of promised goods is recognised when the control of goods has transferred, being at the point the customers receive the goods and title passes to the customers. Revenue excludes VAT or other sales taxes and is after deduction of any trade discounts. Revenue is recognised to the extent that it is highly probable that a significant reversal of the cumulative revenue will not occur when the uncertainty associated with the variable consideration is resolved.

Subcontracting service income is recognised over time, measured by reference to the labour hours required to manufacture the pharmaceutical products.

<u>Other income</u>

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.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18. 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.

2.19. 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.

(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.

2.20. Employees' benefits

(i) Retirement benefits

<u>People's Republic of China ("PRC")</u>

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.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20. Employees' benefits (Continued)

(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.

2.21. 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 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.

2.22. 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22. Income tax (Continued)

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 tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.23. 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.

2.24. 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).
  (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

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2.25. 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.

2.26. 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 intangible assets and refundable deposits

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 and refundable deposits are impaired requires an estimation of the value in use of the cash-generating units to which these 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 costs (both completed and in progress) and refundable deposits as at 31 December 2018 has a total carrying amount of RMB 6,898,000 (2017: RMB 5,801,000) and RMB 25,687,000 (2017: RMB 15,640,000) respectively. The details of the impairment testing consideration for product development costs 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.

Based on management's assessment, full impairment of RMB 600,000 was provided for a deposit relating to a product development project for injection drugs. No impairment was made in relation to the intangible assets for the financial year.

(b) 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 2018 was RMB 42,456,000 (2017: RMB 42,521,000).

In view of the production lines which have been operating at below normal capacity, in accordance with the requirements of SFRS(I) 1-16, 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"). The carrying amount of the production facilities is approximately RMB 23,844,000 (2017: RMB 25,920,000) as disclosed in Note 5.

During the year, the Group has made an impairment loss amounting to RMB 1,491,000 (2017: Nil) after cessation of production lines for one of the Group's injection antibiotics products.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26. Critical accounting estimates, assumptions and judgements (Continued)

(i) Critical accounting estimates and assumptions (Continued)

(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 carrying amounts of the income tax payable and deferred tax assets of the Group as at 31 December 2018 are RMB 354,000 and RMB 6,274,000 (2017: income tax recoverable of RMB 1,307,000 and RMB 4,780,000) respectively.

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

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.

(a) 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 category 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 SFRS(I) 1-38 *Intangible Assets* as well as the classification of assets criteria as set out in SFRS(I) 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26. Critical accounting estimates, assumptions and judgements (Continued)

(a) Refundable deposits (Continued)

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

(i) 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.

(ii) 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.

(iii) 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 2018, management has classified the refundable deposits into non-current assets and current assets amounting to RMB 25,120,000 and RMB 567,000 (2017: RMB 13,273,000 and RMB 2,367,000) 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 2018 are disclosed in Note 12.

(b) Designation of equity investment in an entity as financial assets, at FVPL

Management has assessed the acquisition of 84.347% equity interest in Hainan Sailike Zhiyao Co., Ltd. (Hainan Sailike) according to the salient terms stipulated in the Sales and Purchase Agreement ("SPA"), disclosed in Note 14(a). Management has mandatorily measured the equity investment of 84.347% in Hainan Sailike as financial assets, at FVPL in accordance with SFRS(I) 9 *Financial Instruments*. Management has also, considered the recognition criteria under SFRS(I) 10 *Consolidated Financial Statements* and SFRS(I) 1-28 *Investments in Associates and Joint Ventures*, and concluded that the Group has neither control over nor significant influence in Hainan Sailike as a result of the salient terms in the SPA. Further details are disclosed in Note 14(a).

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3(a). SHARE CAPITAL

	Group and Company			
	2018 RMB'000	2018 No. of shares '000	2017 RMB'000	2017 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.

3(b). TREASURY SHARES

	Group and Company			
	2018 RMB'000	2018 No. of shares '000	2017 RMB'000	2017 No. of shares '000
At beginning of year	(293)	(333)	(170)	(215)
Repurchased during the year	(116)	(156)	(123)	(118)
At end of year	(409)	(489)	(293)	(333)

During an Annual General Meeting on 27 April 2018, the shareholders of the Company approved the purchase of ordinary shares in the share capital of the Company. The Company acquired 156,000 (2017:118,800) of its own shares through on-market purchases during the year. The total amount paid to acquire the shares was RMB 116,047 (2017: RMB 123,375) and has been deducted from shareholders' equity. The shares are held as "treasury shares".

4(a). STATUTORY RESERVES

	Group	
	2018 RMB'000	2017 RMB'000
At beginning of year	22,669	21,906
Transferred from profit earned during the year	1,071	763
At end of year	23,740	22,669

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.

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4(b). ACCUMULATED LOSSES

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017	(32,641)	(11,033)	(3,790)	21,263
Adoption of SFRS(I) 9 (Note 33)	(258)	-	-	-
At 1 January 2018	(32,899)	(11,033)	(3,790)	21,263
Profit / (Loss) for the year	11,721	(20,845)	(1,050)	(25,053)
Transferred to statutory reserves	(1,071)	(763)	-	-
At end of year	(22,249)	(32,641)	(4,840)	(3,790)

5. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold buildings	Leasehold improvements	Machinery and equipment	Motor vehicles	Office equipment	Construction in-progress ("CIP")	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
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 to 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
As at 1 January 2018	42,847	8,798	45,242	1,350	2,704	85	101,026
Additions	-	813	2,246	330	102	4,254	7,745
Transfer to/(from) CIP	-	-	905	-	-	(905)	-
Disposals	-	-	(1,297)	-	(13)	-	(1,310)
Written-offs	-	-	(121)	-	-	-	(121)
As at 31 December 2018	42,847	9,611	46,975	1,680	2,793	3,434	107,340

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5. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group	Leasehold buildings	Leasehold improvements	Machinery and equipment	Motor vehicles	Office equipment	Construction in-progress ("CIP")	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accumulated depreciation and impairment							
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
As at 1 January 2018	24,126	5,613	26,761	255	1,750	-	58,505
Charge for the year	2,250	518	2,942	279	170	-	6,159
Impairment	-	-	1,491	-	-	-	1,491
Disposals	-	-	(1,179)	-	(11)	-	(1,190)
Written-offs	-	-	(81)	-	-	-	(81)
As at 31 December 2018	26,376	6,131	29,934	534	1,909	-	64,884
Net carrying amount							
As at 31 December 2018	16,471	3,480	17,041	1,146	884	3,434	42,456
As at 31 December 2017	18,721	3,185	18,481	1,095	954	85	42,521

During the financial year, depreciation amounting to RMB 4,196,000 (2017: RMB 4,125,000) was charged to 'cost of sales, RMB 1,948,000 (2017: RMB 1,918,000) was charged to 'administrative expenses' and RMB 15,000 (2017: RMB 11,000) was charged to 'selling and distribution expenses'.

Construction in progress

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 the property unit was transferred in 2017 as investment property for renting purpose.

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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 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, 1 January 2018 and 31 December 2018	14	-	14
Accumulated depreciation			
As at 1 January 2017 ,31 December 2017 and 1 January 2018 and 31 December 2018	14	-	14
Net carrying amount			
As at 31 December 2018	-	-	-
As at 31 December 2017	-	-	-

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 SFRS(I) 1-16, 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 under-utilisation of these production lines in current financial year.

The carrying amount of the production facilities, amounting to RMB 23,844,000 (2017: RMB 25,920,000) as at 31 December 2018 comprises the factory building of RMB 7,639,000 (2017: RMB 8,126,000) and production plant and machinery of RMB 16,205,000 (RMB17,794,000).

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 17.56% (2017: 17.56%) per annum. No impairment loss is recognised in respect to these production facilities as the recoverable amount exceeds the carrying amount of the production facilities.

During the year, the Group has made an impairment loss amounting to RMB 1,491,000 (2017: Nil) after cessation of production lines for one of the Group's injection antibiotics products.

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6. INVESTMENT PROPERTIES

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
At beginning of year	15,293	5,057	10,236	-
Transferred from property, plant and equipment (Note 5)	-	10,236	-	10,236
As at end of year	15,293	15,293	10,236	10,236
Accumulated depreciation				
At beginning of year	3,000	2,692	76	-
Charge for the year	692	308	460	76
As at end of year	3,692	3,000	536	76
Net carrying amount	11,601	12,293	9,700	10,160
Fair value	23,154	23,704	9,700	10,160

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

Location	Description / existing use	Tenure	Net carrying amount 2018 RMB'000	Net carrying amount 2017 RMB'000
Haikou, Hainan Province, PRC (1)	6 Office units	Leasehold (unexpired lease term of 40 years)	1,901	2,133
Singapore (2)	1 Office unit	Leasehold (Expired lease term of 99 years)	9,700	10,160
			11,601	12,293

Valuation of investment properties

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 2018 was based on an independent valuation performed on 10 January 2019 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 27).

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6. INVESTMENT PROPERTIES (Continued)

Valuation of investment properties (Continued)

(2) The fair value as at 31 December 2018 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 November 2017 under an operating lease as it is held for rental income (Note 19).

There were no changes in valuation techniques during the year. The Group policy is to recognise transfer into and out of fair value hierarchy as of the date of the event / change in circumstances that caused the transfer. There were no transfer into or out of fair value hierarchy levels for both financial years 2018 and 2017. During the financial year, total depreciation amounting to RMB 692,000 (2017: RMB 308,000) was charged to administrative expenses.

7. INVESTMENT IN A SUBSIDIARY

	Company	
	2018	2017
	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	
			2018	2017
			%	%
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 2017, 31 December 2017, 1 January 2018 and 31 December 2018	1,570

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8. LEASE PREPAYMENTS (Continued)

	Group
	RMB'000
Accumulated amortisation	
At 1 January 2017	880
Charge for the year	76
As at 31 December 2017	956
At 1 January 2018	956
Charge for the year	76
As at 31 December 2018	1,032
Net carrying amount	
As at 31 December 2018	538
As at 31 December 2017	614

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 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
As at 1 January 2018	34,826	54,097	88,923
Additions	-	5,189	5,189
Reversal arising from deposit refunded	-	(3,000)	(3,000)
Transfer from / (to)	7,351	(7,351)	-
As at 31 December 2018	42,177	48,935	91,112

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9. INTANGIBLE ASSETS (Continued)

Group	Deferred development costs	Product development in-progress	Total
	RMB'000	RMB'000	RMB'000
Accumulated amortisation and impairment			
At 1 January 2017, 31 December 2017 and 1 January 2018	34,826	48,296	83,122
Charge for the year	1,092	-	1,092
As at 31 December 2018	35,918	48,296	84,214
Net carrying amount			
As at 31 December 2018	6,259	639	6,898
As at 31 December 2017	-	5,801	5,801

As at 31 December 2018, the individual intangible asset of which net carrying amount is more than 10% (2017: 10%) of the total intangible assets are as follows:

	Group	
	2018	2017
	RMB'000	RMB'000
Net carrying amount:		
Product 1	6,014	1,887
Product 2	-	3,000

Product 1
During the financial year ended 31 December 2018, the Group has incurred additional costs of RMB 5,189,000 to complete the product development. On 2 February 2018, Centre for Drug Evaluation of National Medical Products Administration of People's Republic of China granted the approval for the manufacture and sale of Product 1 and the total costs of development amounting to RMB 7,075,000 was transferred to deferred development costs.

Product 2
The Group and the third party research company has entered into a termination agreement on 1 August 2018 and the full refund of RMB 3,000,000 was received during the year.

Impairment assessment of Intangible assets and Refundable deposits (Note 12)
For the purpose of impairment testing at the reporting date, the recoverable amounts of the above intangible assets and refundable deposits (Note 12) 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.

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9. INTANGIBLE ASSETS (Continued)

Key assumptions adopted in discounted cash flow projections of development projects (with each carrying amount more than RMB 2,500,000) are average revenue growth, gross product margin and discount rate as detailed below:

	Discount rate		Average revenue growth		Gross product margin	
	2018	2017	2018	2017	2018	2017
Intangible assets						
- Product 1	17.20%	19.45%	9.25%	47.25%	48.28%	48.28%
- Product 2	n/a	19.45%	n/a	83.34%	n/a	48.28%
Refundable deposits						
- Product 3	19.20%	26.45%	9.25%	9.25%	48.28%	48.28%
- Product 4	18.20%	23.45%	9.25%	9.25%	48.28%	48.28%
- Product 5	18.20%	n/a	9.25%	n/a	48.28%	n/a

Based on management assessment, there is no reasonably possible change in any of these key assumptions that would cause the recoverable amount to fall below the carrying amount of these assets. Accordingly, no impairment loss is recognised pertaining to 5 product developments above for the current and previous financial year.

10. INVENTORIES

	Group	
	2018	2017
	RMB'000	RMB'000
Raw materials, at cost	33,237	14,265
Work in progress, at cost	5,216	4,235
Finished goods, at net realisable value	14,755	8,912
	53,208	27,412

The cost of inventories recognised as an expense in 'cost of sales' amounted to RMB 47,706,000 (2017: RMB 32,211,000). The write-down of finished goods, amounted to RMB 302,000 (2017: RMB 147,000) was recognised as administrative expense for the current financial year.

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11. TRADE RECEIVABLES

	Group	
	2018	2017
	RMB'000	RMB'000
Trade receivables	35,827	8,616
Bills receivables	104	379
	35,931	8,995
Less: loss allowance	(1,115)	-
	34,816	8,995

Trade receivables are non-interest bearing and are generally on 90 days credit terms. There are recognised at their original invoiced amounts which represent their fair values on initial recognition.

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 2018, the remaining maturity period of bill receivables is about 6 months.

12. REFUNDABLE DEPOSITS, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Refundable deposits (Note A)	25,720	13,273	-	-
Impairment loss allowance	(600)	-	-	-
	25,120	13,273	-	-
Current assets				
Refundable deposits (Note A)	567	2,367	-	-
Other receivables			-	29
- Third parties	875	915		
- Related party	450	-		
Other deposits	427	347	-	2
Prepayments:				
- Plant and machinery	742	1,207	-	-
- Raw materials	1,809	336	-	-
- Others	303	644	14	13
	5,173	5,816	14	44
Loss allowance:				
- Other receivables	(300)	(300)	-	-
	4,873	5,516	14	44

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

Note A

Refundable deposits are comprised of the following:

	2018 RMB'000	2017 RMB'000
Refundable deposit I	567	-
Refundable deposits II	25,720	15,640
	26,287	15,640
Movements of refundable deposits (gross)		
At beginning of year	15,640	29,174
Deposit paid to third party research companies	16,947	12,673
Refunded	(6,300)	(12,300)
Write-offs (Note 22)	-	(13,907)
At end of year	26,287	15,640

There are 3 key contractual milestones for all of these product development 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" in Note A above.
- 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 in Note 9.
- 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

Subsequent to financial year ended 31 December 2018, the Group has received full refund of the deposit.

Refundable deposits II

This group of deposits comprises deposits in respect of 16 (2017: 7) separate on-going projects and 9 (2017: 6) separate new projects paid to 6 (2017: 3) 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. The amount committed based on the contracts to be payable upon reaching the required milestone is disclosed in Note 28(i).

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

Impairment assessment of refundable deposits
As the deposits are used to fund the development of new products, management has performed annual impairment test on the recoverable amounts of these new projects based on current regulatory requirements and potential market demand of the new products. The outcome of the assessment is used by board of directors to decide on whether to continue advancing the product development projects to 2nd milestone. The details of management's key assumption to the recoverable amount is disclosed in Note 9.

During the financial year, full impairment of RMB 600,000 (2017: Nil) was provided for a deposit relating to one product development project for injection drug as the recoverable amount exceeds the carrying amount.

13. DUE FROM A SUBSIDIARY (NON-TRADE)

	Company	
	2018	2017
	RMB'000	RMB'000
At beginning of year	18,000	18,000
Less: Allowance for impairment loss	(18,000)	(18,000)
At end of year	-	-

14(a). FINANCIAL ASSETS, AT FVPL (NON-CURRENT)

	Group	
	2018	2017
	RMB'000	RMB'000
At 1 January, at cost	-	-
Additions	- *	-
At 31 December	- *	-

* Amount less than RMB1,000

On 16 May 2018, the Group entered into a conditional Sales and Purchase Agreement (the "SPA") with Hainan Selection Pharmaceutical Co., Ltd. ("Hainan Selection") to acquire 84.347% equity interest in Hainan Sailike Zhiyao Co., Ltd. ("Hainan Sailike") for RMB 1. The Executive Chairman of the Company is deemed interested in Hainan Sailike by way of his 95% equity shareholdings in Hainan Selection which is deemed to be holding company of Hainan Sailike.

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14(a). FINANCIAL ASSETS, AT FVPL (NON-CURRENT) (Continued)

The salient terms of the SPA are as follows:

(a) The Group shall not take part in any business operation and financial decision of Hainan Sailike
(b) The Group shall not participate in the distribution or sharing of profit or loss of Hainan Sailike in either pre-acquisition or post-acquisition financial results
(c) The Group shall not share the assets and liabilities of Hainan Sailike; and
(d) The Group shall transfer back the entire 84.347% equity interest to Hainan Selection at a consideration RMB 1 upon fulfilment of obligations under the Agreement

Based on the above facts and circumstances established in the SPA, management has concluded that the Group does not have control, joint control or significant influence over Hainan Sailike. Accordingly, the investment is classified as financial assets, at FVPL at RMB 1 (the eventual pre-agreed exit price of the Group to Hainan Selection), which is categorised as level 3 of fair value hierarchy.

14(b). AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2018 RMB'000	2017 RMB'000
At 1 January, at cost	-	-
Additions	-	31,000
Redemption	-	(31,000)
At 31 December	-	-

14(c). FINANCIAL ASSETS, AT FVPL (CURRENT)

	Group	
	2018 RMB'000	2017 RMB'000
At 1 January	-	-
Additions	51,000	-
Disposal	(51,000)	-
At 31 December	-	-

In previous financial year ended 31 December 2017, 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 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. The Group had designated these investments as an "Available-for-sale" financial assets in 2017 (Note 14(b)).

Upon adoption of SFRS(I) 9 Financial Instruments on 1 January 2018, the Group has mandatorily measured these investments as financial assets, at FVPL. The tenure of these products is ranging from 1 month to 6 months, with yield rates ranged between 3.8% and 4.9% per annum.

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15. CASH AND BANK BALANCES

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank	39,026	23,217	7,387	10,171
Cash in hand	2	5	-	-
Fixed deposit	48,042	45,739	48,042	45,739
Cash and cash equivalents per consolidated statement of cash flows	87,070	68,961	55,429	55,910

As at 31 December 2018, the Group has bank balances of RMB 31,639,000 (2017: RMB 13,046,000) 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 29(i)(a). Fixed deposit earns interest income at a fixed rate of 1.75% (2017: 1.38%) per annum and has tenure of 6 months (2017: 1 year).

16. TRADE AND OTHER PAYABLES

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	8,782	9,451	-	-
VAT payable	5,212	3,028	-	-
Other payables	11,861	14,209	-	-
Customer deposits (Note A)	29,702	6,998		
Accruals (Note B)	70,886	23,077	2,024	1,829
	126,443	56,763	2,024	1,829

Note A

Customer deposits will be refunded to the customer upon end of business relationship.

Note B

Included in the Group's accruals are accrued marketing and distribution expenses amounting to RMB 67,078,000 (2017: RMB 19,360,000) which was due to the implementation of "Two-invoice" system during the financial year by relevant authorities in PRC. "Two-invoice" 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 136,064,000 (2017: RMB 31,329,000) (Note 20(a)) incurred by the Group which were recorded as selling and distribution expenses.

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17. DEFERRED TAX ASSETS

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
2018	
At beginning of year	-
Recognised in profit or loss	-
At end of year	-
2017	
At beginning of year	42
Recognised in profit or loss (Note 25)	(42)
At end of year	-

Deferred tax assets of the Group	Net difference between net carrying amount of property, plant and equipment and intangible assets, and their tax base	Accrued marketing expenses	Total
	RMB'000	RMB'000	RMB'000
2018			
At beginning of year	1,880	2,900	4,780
Recognised in profit or loss (Note 25)	(809)	2,303	1,494
At end of year	1,071	5,203	6,274
2017			
At beginning of year	1,220	-	1,220
Recognised in profit or loss (Note 25)	660	2,900	3,560
At end of year	1,880	2,900	4,780

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17. DEFERRED TAX ASSETS (Continued)

As at 31 December 2018, the Group has the following temporary differences, for which no deferred tax asset is recognised due to uncertainty of its recoverability.

	Group	
	2018 RMB'000	2017 RMB'000
Intangible assets and refundable deposits	25,729	41,526
Accrued marketing expenses	8,388	-
Others*	8,181	9,372
	42,298	50,898

* Mainly relates to revenue and cost of sales cut-off adjustments.

18. REVENUE

	Timing of recognition	Group 2018 RMB'000	Group 2017 RMB'000 (Note 32)
Sale of antibiotics	At a point in time	29,361	24,052
Sale of cardiovascular drugs and cerebrovascular drugs	At a point in time	6,877	3,731
Sale of other specialised drugs *	At a point in time	205,509	65,538
Subcontracting service income	Over time	564	1,973
		242,311	95,294

* Included in "Sale of other specialised drugs" are sale of inhalation drugs amounting to RMB 74,415,000 (2017: Nil).

19. OTHER OPERATING INCOME

	Group	
	2018 RMB'000	2017 RMB'000 (Note 32)
Government grants	1,172	1,058
Rental income from investment properties (Note 6)		
- Related party	773	970
- Third party	244	41
Others	62	423
	2,251	2,492

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20(a). SELLING AND DISTRIBUTION EXPENSES

	Group	
	2018	2017
	RMB'000	RMB'000
Personnel expenses	5,474	3,327
Conference fees	1,011	501
Marketing and distribution expenses	136,064	31,329
Transportation expenses	973	792
Travelling expenses	1,196	516
Rental expenses *	3,130	102
Depreciation of property, plant and equipment	15	11
Testing fees	2,818	683
Others	973	563
	151,654	37,824

* Rental expenses amounted to RMB 3,000,000 in 2018 relate to rental of premises paid to an individual, who has been subsequently appointed as Non-Executive director on 1 March 2019.

20(b). ADMINISTRATIVE EXPENSES

	Group	
	2018	2017
	RMB'000	RMB'000
Audit fees: auditors of the Company	1,114	1,006
Amortisation of deferred development cost (Note 9)	1,092	-
Depreciation of property, plant and equipment	1,948	1,918
Depreciation of lease prepayment (Note 8)	76	76
Depreciation of investment properties (Note 6)	692	308
Directors' fee (Note 27)	468	473
Key management remuneration other than directors' fee (Note 27)	1,608	1,773
Insurance expenses	36	70
Professional fees	540	500
Rental expenses (Note 27)	773	970
Repair and maintenance	186	106
Research and development fees	-	357
Personnel expenses	4,561	3,524
Travelling expenses	337	484
Transportation expenses	496	431
Allowance for stock obsolescence	209	102
Inventory written down	93	45
Entertainment expenses	721	1,063
Overheads expensed off	454	757
Others	3,986	2,273
Subtotal	19,390	16,236
Impairment loss on financial assets	857	300
Total	20,247	16,536

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21. PERSONNEL EXPENSES

	Group	
	2018 RMB'000	2017 RMB'000
Salaries, wages and bonus *	15,415	13,325
Defined contribution retirement plans *	5,280	4,470
	20,695	17,795

* Includes directors and other key management personnel remuneration as disclosed in Note 27.

22. OTHER OPERATING EXPENSES

	Group	
	2018 RMB'000	2017 RMB'000
Loss on disposal of property, plant and equipment	117	11
Property, plant and equipment written off	40	-
Intangible assets written off (Note 9)	-	6,677
Refundable deposits written off (Note 12)	-	13,907
New product research cost	1,836	359
Impairment loss on property, plant and equipment	1,491	-
Impairment loss on refundable deposits	600	-
Others	86	187
	4,170	21,141

23. FINANCE INCOME

	Group	
	2018 RMB'000	2017 RMB'000
Interest income on:		
- Available-for-sale financial assets	-	168
- Financial assets, at FVPL	340	-
- Bank balances	684	471
Foreign exchange gain		
- Unrealised foreign exchange gain on bank balances	2,607	-
	3,631	639

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24. FINANCE COSTS

	Group	
	2018	2017
	RMB'000	RMB'000
Bank charges	27	21
Foreign exchange loss		
- Unrealised foreign exchange loss on bank balances	-	3,418
- Realised foreign exchange gain	-	(14)
	27	3,425

25. INCOME TAX CREDIT

	Group	
	2018	2017
	RMB'000	RMB'000
Current tax		
- Current year	479	1,240
- Over provision in prior year	-	(49)
Deferred tax (Note 17)		
- Origination and reversal of temporary differences	(1,494)	(3,602)
	(1,015)	(2,411)

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

	Group	
	2018	2017
	RMB'000	RMB'000
Accounting profit / (loss) before tax	10,706	(23,256)
Income tax based on applicable tax rate of 15% (2017: 15%) in PRC	1,606	(3,488)
Effect in tax rate in foreign jurisdiction	(21)	(141)
Tax effect of non-deductible expenses	835	1,327
Income not subject to tax	(595)	(55)
Over provision of prior year tax in prior years	-	(49)
Tax incentives from double deductions	(1,550)	-
Utilisation of prior year unrecognised deferred tax assets	(1,290)	-
Others	-	(5)
Income tax credit	(1,015)	(2,411)

The Company is subjected to applicable tax rate of 17%. Its 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.

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26. EARNINGS / (LOSS) 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	
	2018	2017
Net profit / (loss) attributable to equity holders of the Company (RMB'000)	11,721	(20,845)
Weighted average number of ordinary shares (in '000) outstanding for basic earnings per share	46,431	46,570
Basic earnings / (loss) per share (RMB cents)	25.24	(44.76)

As at 31 December 2018 and 2017, there is no dilutive or anti-dilutive instrument outstanding. The diluted earnings / (loss) per share is the same as the basic earnings per share.

27. 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	
	2018	2017
	RMB'000	RMB'000
Sales to a related party	-	19,331
Rental income earned from a related party (Note A)	773	970
Warehouse rental paid to a related party (Note A)	(773)	(970)

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 773,000 (2017: RMB 970,000), in exchange for rental of office space and storage from the same related party of the same notional value.

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27. RELATED PARTY INFORMATION (Continued)

	Group	
	2018	2017
	RMB'000	RMB'000
Key management personnel remuneration		
Directors of the Company:		
- Directors' fees	468	473
- Short-term employee benefits	1,165	1,215
- Defined contribution retirement plans	-	13
	1,633	1,701
Other key management personnel:		
- Short-term employee benefits	426	510
- Defined contribution retirement plans	17	35
	2,076	2,246

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.

28. COMMITMENTS

(i) Future capital commitments

Capital expenditure contracted for as at 31 December 2018 but not recognised in the financial statements are as follows:

	Group	
	2018	2017
	RMB'000	RMB'000
In respect of:		
- product development in-progress	33,219	17,827
- acquisition of property, plant and equipment	1,558	406
	34,777	18,233

(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	
	2018	2017
	RMB'000	RMB'000
Within 1 year	773	998
After 1 year but within 5 years	1,739	3,152

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28. COMMITMENTS (Continued)

(iii) Non-cancellable operating lease receivables

The Group leased out its investment properties 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	
	2018	2017
	RMB'000	RMB'000
Within 1 year	1,016	1,224
After 1 year but within 5 years	2,449	4,115

29. 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 risk. 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 financial assets and financial liabilities at amortised cost (2017: loans and receivables and available-for-sale financial assets).

(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.

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29. 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 2018	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	34,816	-	-	-	34,816
Other receivables and deposits	1,452	-	-	-	1,452
Cash and bank balances	31,641	1,461	1,355	52,613	87,070
	67,909	1,461	1,355	52,613	123,338
Financial liability					
Trade and other payables	89,844	1,600	85	-	91,529
Net financial (liabilities) / assets	(21,935)	(139)	1,270	52,613	31,809
Less: Net financial liabilities denominated in the respective entities' functional currency	21,935	-	-	-	21,935
Foreign currency exposure	-	(139)	1,270	52,613	53,744

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	931	31	-	-	962
Cash and bank balances	13,051	4,410	747	50,753	68,961
	22,977	4,441	747	50,753	78,918
Financial liability					
Trade and other payables	45,128	1,543	66	-	46,737
Net financial (liabilities) / assets	(22,151)	2,898	681	50,753	32,181
Less: Net financial liabilities denominated in the respective entities' functional currency	22,151	-	-	-	22,151
Foreign currency exposure	-	2,898	681	50,753	54,332

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29. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Company 2018	Chinese Renminbi	Singapore Dollar	Hong Kong Dollar	United States Dollar	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial asset					
Cash and bank balances	-	1,461	1,355	52,613	55,429
Financial liability					
Accruals	339	1,600	85	-	2,024
Net financial (liabilities) / assets	(339)	(139)	1,270	52,613	53,405
Less: Net financial liabilities denominated in the Company's functional currency	339	-	-	-	339
Foreign currency exposure	-	(139)	1,270	52,613	53,744

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	-	31	-	-	31
Cash and bank balances	-	4,410	747	50,753	55,910
	-	4,441	747	50,753	55,941
Financial liability					
Accruals	220	1,543	66	-	1,829
Net financial (liabilities) / assets	(220)	2,898	681	50,753	54,112
Less: Net financial liabilities denominated in the Company's functional currency	220	-	-	-	220
Foreign currency exposure	-	2,898	681	50,753	54,332

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29. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Foreign exchange risk sensitivity

The following table demonstrates a 10% (2017: 5%) strengthening of RMB against the following currencies at the reporting date. 10% (2017: 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 10% (2017: 5%) change in foreign currency rates.

If the Chinese Renminbi strengthens by 10% (2017: 5%) against the relevant foreign currency with all other variables held constant, profit or loss will increase / (decrease) by:

	2018 Profit net of tax RMB'000	2017 Loss net of tax RMB'000
Group		
Singapore Dollar	12	123
Hong Kong Dollar	(108)	29
United States Dollar	(4,472)	2,157

	2018 Loss net of tax RMB'000	2017 Loss net of tax RMB'000
Company		
Singapore Dollar	(12)	123
Hong Kong Dollar	108	29
United States Dollar	4,472	2,157

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 2018 and 2017, 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.

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29. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(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 2018 and 2017 are repayable on demand or due within 1 year from the reporting date.

(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. 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 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.

Trade receivables

The Group's exposure to credit risk from trade receivables are linked to the individual characteristics of each customer, and also influenced by the default risk specific to the industry or country brought about by the general economic condition.

The Group has established a provision matrix for trade receivables (including bill receivables), as disclosed below:

Group (31 December 2018)	<----------------Past due---------------->				
	0 to 3 months	3 to 6 months	Beyond 6 months	Beyond 12 months	Total
Sale of pharmaceutical products	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Expected loss rate	0.67%	4.78%	31.30%	100%	
Gross carrying amount	30,653	3,116	2,039	123	35,931
ECL allowance	(205)	(149)	(638)	(123)	(1,115)
Credit impaired	No	No	No	Yes	

Group (1 January 2018)	<----------------Past due---------------->				
	0 to 3 months	3 to 6 months	Beyond 6 months	Beyond 12 months	Total
Sale of pharmaceutical products	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Expected loss rate	1.18%	10.26%	4.10%	-	
Gross carrying amount	7,177	1,598	220	-	8,995
ECL allowance	(85)	(164)	(9)	-	(258)
Credit impaired	No	No	No	-	

The provision matrix is based on historical credit loss experience, adjusted for forward-looking factors specific to those customers and the economic environment, taking into account of the projected default rates by credit agency. As the Group's historical credit loss experience does not shows significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer base.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Chinese Renminbi ("RMB'000") unless otherwise stated)

29. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

The movement of the life-time ECL on trade receivables are as follows:

Group	Trade receivables RMB'000
Balance at 31 December 2017	
- Per FRS 39	-
- initial adoption of SFRS(I) 9	258
Balance at 1 January 2018	258
ECL allowance recognised during the year	
- Origination of new receivable net of these settled	857
Balance at 31 December 2018	1,115

Comparative information under FRS 39

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

	Group	
	31.12.17 RMB'000	1.1.17 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.

Non trade receivables

Non trade receivables are recoverable on demand which is aged less than 12 months. Impairment on these balances has been measured on the 12-month expected loss basis which reflects the low credit risk of the exposures. The amount of the allowance on these balances is insignificant.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Chinese Renminbi ("RMB'000") unless otherwise stated)

29. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

Cash and cash equivalents

The Group's bank balances are deposited with reputable financial institutions in the PRC and Singapore. Impairment on cash and cash equivalents has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. The amount of the allowance on cash and cash equivalents is negligible.

(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	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at amortised cost	123,338	-	55,429	-
Financial assets, at FVPL	-*	-	-	-
Loans and receivables	-	78,918	-	55,941
Financial liabilities at amortised cost	91,529	46,737	2,024	1,829

* Amount less than RMB 1,000

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 and statutory reserves as disclosed in Notes 3(a) and 4(a).

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 2017.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Chinese Renminbi ("RMB'000") unless otherwise stated)

30. 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 and financial assets, at FVPL as shown in Note 6 and Note 14(a) respectively, 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, and trade and other payables) are assumed to approximate their fair values because of the short period to maturity.

31. SEGMENTAL INFORMATION

The Group's sole business segment operates only in the PRC. In FY2017, revenue of approximately RMB 23,560,000 was derived from one external customer in PRC. There was no single external customer that generate more than 10% of the Group's total revenue in FY2018. Details and breakdown of the Group's revenue by products are as disclosed in Note 18.

32. COMPARATIVES

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements which classify subcontracting service income as "Revenue".

	As restated	As previously reported
Consolidated statement of profit or loss and other comprehensive income for 31 December 2017		
Revenue	95,294	93,321
Cost of sales	(42,755)	(41,277)
Other operating income	2,492	2,987

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Chinese Renminbi ("RMB'000") unless otherwise stated)

33. EXPLANATION OF TRANSITION TO SFRS(I)s

In December 2017, the Accounting Standards Council (ASC) issued the Singapore Financial Reporting Standards (International) (SFRS(I)s). SFRS(I)s comprise standards and interpretations that are equivalent to International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) at 31 December 2017 that are applicable for annual period beginning on 1 January 2018. Singapore-incorporated companies that have issued, or are in the process of issuing, equity or debt instruments for trading in a public market in Singapore, will apply SFRS(I)s with effect from annual periods beginning on or after 1 January 2018.

As stated in Note 2.1., these are the first financial statements of the Group and of the Company prepared in accordance with SFRS(I)s. The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended 31 December 2018, the comparative information presented in these financial statements for the year ended 31 December 2017 and in the preparation of the opening SFRS(I) statement of financial position at 1 January 2017 (the Group's date of transition), subject to the mandatory exceptions and optional exemptions under SFRS(I) 1.

In preparing the opening SFRS(I) statement of financial position, the Group has adjusted amounts reported previously in the financial statements prepared in accordance with previous FRSs.

In addition to the adoption of the new framework, the Group also concurrently applied the following SFRS(I)s, interpretations of SFRS(I)s and requirements of SFRS(I)s which are mandatorily effective from the same date.

- SFRS(I) 15 Revenue from Contracts with Customers which includes clarifications to IFRS 15 Revenue from Contracts with Customers issued by the IASB in April 2016;
- SFRS(I) 9 Financial Instruments which includes amendments arising from IFRS 4 Insurance Contracts issued by the IASB in September 2016;
- requirements in SFRS(I) 1-40 Investment Property arising from the amendments to IAS 40 – Transfers of investment property issued by the IASB in December 2016;
- requirements in SFRS(I) 1 arising from the amendments to IFRS 1 – Deletion of short-term exemptions for first time adopters issued by the IASB in December 2016;
- requirements in SFRS(I) 1-28 Investments in Associates and Joint Ventures arising from the amendments to IAS 28 – Measuring an associate or joint venture at fair value issued by the IASB in December 2016; and
- SFRS(I) INT 22 Foreign Currency Transactions and Advance Consideration.

The application of the above standards and interpretations do not have a material effect on the financial statements, except for SFRS(I) 15 and SFRS(I) 9. An explanation of how the transition from previous FRSs to SFRS(I)s and the effects of adoption of SFRS(I) 15 and SFRS(I) 9 have on the Group's financial position, financial performance and cash flows is set out as follows.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Chinese Renminbi ("RMB'000") unless otherwise stated)

33. EXPLANATION OF TRANSITION TO SFRS(I)s (Continued)

(1) Effect of adoption of SFRS(I) 15 *Revenue from Contracts with Customers*

SFRS(I) 15 establishes a single comprehensive model in accounting for revenue arising from contracts with customers, and will supersede the revenue recognition guidance including FRS 18 Revenue, FRS 11 Construction Contracts and the related Interpretations.

The core principle of SFRS(I) 15 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 SFRS(I) 15, 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 management has assessed that the control passes when the customer received the goods and title passes to the customer, which coincides with the timing of transfer of risk and reward under FRS 18.

The Group's contracts with customers are only sale of pharmaceutical products to customers in PRC. The Group assessed that all contracts with customers only consist of 1 performance obligation and do not contain significant financing component. There is minimal variable considerations (volume rebates) and minimal sales returns in current financial year. Given immaterial impact, the adoption of SFRS(I) 15 *Revenue from Contracts with Customers (including Clarifications)* does not give rise to material adjustments on the Group's financial statements. Hence a reconciliation of change is not prepared.

(2) Adoption of SFRS(I) 9 *Financial Instruments*

(a) Classification and measurement of financial assets

During the year, the Group had been investing in financial products as disclosed in Note 14. These investments were redeemed before year end.

All recognised financial assets that are within the scope of SFRS(I) 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, at the following categories:

- Amortised costs
- Fair value through profit or loss (FVPL)
- Fair value through Other Comprehensive Income (FVOCI) – Debt investments
- FVOCI – Equity investments

SFRS(I) 9 eliminates the previous categories of financial assets, namely loans & receivables (L&R), held-to-maturity (HTM) financial assets and available-for-sale (AFS) financial assets. As allowed by SFRS(I) 9, the Group adopts the classification and measurement categories on 1 January 2018 based on facts and circumstances existed at the date for the determination of the business model, and does not restate comparative information for prior periods. Difference in carrying amounts of financial assets resulting from adoption of SFRS(I) 9 are adjusted to retained earnings and reserve as at 1 January 2018.

The Group previously classified such investment in financial product that were not held for trading as AFS financial assets. In compliance with SFRS(I) 9, the Group mandatorily measures those investments at FVPL.

There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under FRS 39 that were subject to reclassification, or which the Group has elected to reclassify upon the application of SFRS(I) 9.

As at 31 December 2018 and 1 January 2018 (date of transition to SFRS(I)), the Group did not record any balance pertaining to the investments in financial products, hence a reconciliation of change is not prepared.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018
(Amounts in thousands of Chinese Renminbi ("RMB'000") unless otherwise stated)

33. EXPLANATION OF TRANSITION TO SFRS(I)s (Continued)

(2) Adoption of SFRS(I) 9 *Financial Instruments* (Continued)

(b) Impairment of financial assets

The "incurred loss" model in FRS 39 was replaced by the "Expected Credit Losses (ECL)" model in SFRS(I) 9, which applies to financial assets measured at amortised costs.

Impairment loss for trade receivables are provided using simplified approach at the life time ECL. For assets within the scope of SFRS(I) 9 impairment model, impairment losses are generally expected to be provided at a higher amount and earlier than what was provided using FRS 39.

As allowed by SFRS(I) 1, the Group does not restate comparative information for prior periods in respect changes with respect of classification and measurement (including impairment). Additional impairment of financial assets resulting from adoption of SFRS(I) 9 are adjusted to accumulated losses as at 1 January 2018.

The following reconciliation summarise the impacts on initial application of SFRS(I) 9 on the Group's financial position as at 1 January 2018. The initial application if SFRS(I) 9 did not have any impact on the Group's financial performance and cash flow as at 1 January 2018.

	31 December 2017	1 January 2018	
	FRS framework	SFRS(I) 9*	SFRS(I) framework
	RMB'000	RMB'000	RMB'000
Assets			
Non-current assets	79,282	-	79,282
Trade and other receivables	14,511	(258)	14,253
Others	97,680	-	97,680
Current assets	112,191	(258)	111,933
Total assets	191,473	(258)	191,215
Liabilities			
Current liabilities / Total liabilities	56,763	-	56,763
Equity			
Share capital	144,975	-	144,975
Treasury shares	(293)	-	(293)
Statutory reserves	22,669	-	22,669
Accumulated losses	(32,641)	(258)	(32,899)
Total equity	134,710	(258)	134,452
Net assets	134,710	-	134,452

*Pertains to ECL allowance on date of transition, as disclosed in the Note 29 (iii).

Adoption of SFRS(I) 9 has no impact on the Company's financial statements.

STATISTICS OF SHAREHOLDINGS

AS AT 12 MARCH 2019

Issued and Fully Paid-up Capital	-	S$31,372,977
Number of Ordinary Shares (excluding treasury share and subsidiary holdings)	-	45,875,199
Number of Treasury Shares Held and percentage	-	949,800 (2.07%)
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	0.39	201	0.00
100 - 1,000	208	20.12	135,925	0.30
1,001 - 10,000	581	56.19	2,492,840	5.43
10,001 - 1,000,000	236	22.82	12,208,393	26.61
1,000,001 AND ABOVE	5	0.48	31,037,840	67.66
TOTAL	**1,034**	**100.00**	**45,875,199**	**100.00**

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	RAFFLES NOMINEES (PTE.) LIMITED	14,210,966	30.98
2	PHILLIP SECURITIES PTE LTD	10,755,000	23.44
3	CHENG YE	2,968,020	6.47
4	DBS NOMINEES (PRIVATE) LIMITED	1,943,854	4.24
5	ANG KONG BENG @ ANG KONG ENG	1,160,000	2.53
6	TAN KIM CHIANG	641,400	1.40
7	MAYBANK KIM ENG SECURITIES PTE. LTD.	529,108	1.15
8	ENG KOON HOCK	418,000	0.91
9	ATMA SINGH S/O NAND SINGH	372,900	0.81
10	LIU YU	274,900	0.60
11	CUI YONGJIE	257,600	0.56
12	HEN TICK COLDSTORAGE PTE LTD	244,800	0.53
13	OCBC NOMINEES SINGAPORE PRIVATE LIMITED	241,200	0.53
14	OCBC SECURITIES PRIVATE LIMITED	225,700	0.49
15	UOB KAY HIAN PRIVATE LIMITED	209,000	0.46
16	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	208,400	0.45
17	LOH POAY HUAN	200,000	0.44
18	FOO WILLIAM	190,000	0.41
19	TAN BOON KIM	180,000	0.39
20	THIAN YIM PHENG	168,000	0.37
	TOTAL	**35,398,848**	**77.16**

SUBSTANTIAL SHAREHOLDERS AS AT 12 MARCH 2019

(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	30.52
2.	Wang Qi [(2)]	-	-	10,400,000	22.67
3.	Cheng Ye	2,968,020	6.47	-	-

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 12 March 2019, 40.34% 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, 26 April 2019 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 2018 together with the Auditors' Report thereon.

   (Resolution 1)

2. To re-elect the following Directors of the Company retiring pursuant to Regulation 88 and 89 of the Constitution of the Company:

   Ms. Tan Wen Wen (Regulation 88) **(Resolution 2)**
   Mr. Ng Poh Khoon (Regulation 89) **(Resolution 3)**

[See Explanatory Note (i)]

3. To approve the payment of Directors' fees of S$96,436 (equivalent to RMB 468,343) for the financial year ended 31 December 2018 [2017: S$96,900 (equivalent to RMB473,171)]

   (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.

NOTICE OF ANNUAL GENERAL MEETING

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

(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,

(the "**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

7. **Proposed Renewal of Share Purchase Mandate (cont'd)**

(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 ("**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 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;

(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, 10 April 2019

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes:

(i) Ms. Tan Wen Wen will, upon re-election as Director of the Company, remain as a member of Audit Committee, Nominating Committee and Remuneration Committee of the Company and will be considered the Non-Executive Director and Non Independent Director, pursuant to Rule 704(8) of the Listing Manual of the SGX-ST.

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

Please refer to page 29 and 32 in the Annual Report for the detailed information for Ms. Tan Wen Wen and Mr. Ng Poh Khoon required pursuant to Rule 720(6) 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, 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 2018 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 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.

* 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, the "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 Investor"**) and/or the Supplementary Retirement Scheme (**"SRS Investor"**) (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			

or failing *him/her, the Chairman of the Annual General Meeting of the Company (**"Meeting"**) as *my/our *proxy/proxies to vote for *me/us on *my/our behalf at the Meeting to be held at Six Battery Road #10-01 Singapore 049909 on Friday, 26 April 2019 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 2018		
2	Re-election of Ms. Tan Wen Wen as a Director		
3	Re-election of Mr. Ng Poh Khoon as a Director		
4	Approval of Directors' fees amounting to S$96,436 (equivalent to RMB 468,343) for the financial year ended 31 December 2018		
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 2019

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

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 Investor"**) and/or the Supplementary Retirement Scheme (**"SRS Investor"**) (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 10 April 2019.

STAR PHARMACEUTICAL LIMITED

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

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