



STAR PHARMACEUTICAL LIMITED
(Company Registration No. 200500429W)
(Incorporated in Singapore)

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE RESULTS ANNOUNCEMENT FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

The Board of Directors (“**Board**”) of STAR Pharmaceutical Limited (“**Company**”, and together with its subsidiaries, collectively “**Group**”) refers to the Company’s results announcement for the third quarter ended 30 September 2017 released on 14 November 2017. The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 28 November 2017 (each, a “**SGX Query**”) as follows:

SGX Query 1

On Page 3 of the 3Q2017 Results, the Company disclosed “refundable deposits” amounting to RMB 17.17 million. Please disclose the material terms of these “refundable deposits”, including to whom these were paid, for what purposes and when these were made.

Company’s Response to SGX Query 1

The Group actively sourced for suitable development projects marketed by third party vendor companies and entered into collaboration arrangements with them to provide funding with the objective of eventual acquisition of these identified technical know-how. Under such investing arrangements, the Group was typically required to make upfront deposit payments to fund these third party vendor 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 evident by the successful registration of the manufacturing rights with the People’s Republic of China (“**PRC**”) regulatory bodies.

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

The summary of the salient terms of the refundable deposits as follows:-

1. These contracts provide for full refund if the know-how and the manufactured quality and process do not fulfil the required level of standards specified in the contracts.
2. It is also stated that for any loss suffered as a result of failure in R&D due to technology constraints as indicated by the rejection from the regulatory authority, the counterparty bears 90% of the loss, and the Group is only liable for 10%.
3. The counterparty has the right to apply for patent until the approval to manufacture is obtained. However, upon the hand-over of the technology and accepted by the Group, the Group is entitled to use the technology exclusively but is entitled to transfer the technology upon receiving the approval to manufacture and upon completion of the contract.

As at the end of the reporting period, the Group placed 9 separate on-going projects entered ranging from 2013 to 2016 and paid to 5 third party vendor companies for the potential acquisition of the technical know-how developed based on collaborative efforts between the Group and those vendors. These deposits were classified as refundable deposits.

SGX Query 2

It was disclosed that the Company had RMB 12.0 million in “available-for-sale financial assets”. Please disclose what is underlying nature of these “available-for-sale financial assets”, and why these have increased significantly in the 3Q2017 Results.

Company’s Response to SGX Query 2

The Group invested in certain non-principal protected financial products with several local PRC financial institutions. These investments have a tenure ranging from 1 month to 12 months with an option to terminate or redeem early by the Group. The Group held these financial products for investment purpose with variable returns. The investment amount was closely evaluated by the Group.

SGX Query 3

Please provide a discussion of the underlying factors contributing to the significant trends and competitive conditions of the pharmaceutical industry, and the status of the Company's product development and sales.

Company's Response to SGX Query 3

Major trends and competitive conditions of the pharmaceutical industry

With the comprehensive reform of PRC's national medical insurance, medical treatment and medicine, a lot of new policies implemented in the pharmaceutical industry during 2017 and caused a profound impact on the development of the pharmaceutical industry. In the short term, the profit of the pharmaceutical industry will be affected to a certain extent. However, the promulgation of relevant policies to reform the drawbacks of the existing pharmaceutical industry will be conducive to the long-term healthy development of the industry.

The competitive conditions of the pharmaceutical industry in PRC focused on product upgrading, technological innovation for new products, improvement of the automation level of manufacturing system and excellent quality of products.

The status of the Company's product development and sales

The Group has actively carried out product development and technological innovation. The research on the consistency assessment of multiple products are nearly enter to the BE pilot phase. We also devote the development of innovative Chinese medicine.

In terms of product sales, in order to meet the needs of the reform of the medical system, the Group realized the reorganization of the sales network to enhance the market control ability and development capability of the headquarter and allowed our sale team actively responds to the bidding and tendering requirements of various regional markets. The Group will continue transform the product structures and diversify the distribution networks. In addition to the traditional antibacterial drugs, proprietary Chinese medicine will be a new growth for our sales.

BY ORDER OF THE BOARD

Xu Zhi Bin
Executive Chairman
30 November 2017