



Securities Investors Association (Singapore)

7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111

Tel: (65) 6227 2683 Fax: (65) 6220 6614

Email: admin@sias.org.sg www.sias.org.sg

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Issuer: STAR Pharmaceutical Limited

Security: STAR Pharmaceutical Limited

Meeting details:

Date: 26 April 2019

Time: 3.00 p.m.

Venue: Six Battery Road #10-01 Singapore 049909

Company Description

STAR Pharmaceutical Limited is an investment holding company. The principal activities of the subsidiaries are those relating to the development, manufacturing and trading of pharmaceutical products. The Company operates in the development, manufacturing and trading of pharmaceutical products segment. The Company and its subsidiaries are engaged in the manufacture and sale of both western and Traditional Chinese Medicine (TCM)-formulated prescription drugs. The Company's range of pharmaceutical products include antibiotics, cerebrovascular drugs and cardiovascular drugs, and other specialized drugs manufactured in-house in various dosages and administration forms from powder injections, lyophilized powder injections, liquid injections to tablets, capsules and granules. It has approximately 820 distributors to hospitals, clinics and pharmacies. The Company has a manufacturing facility based in Qionghai City, Hainan Province of People's Republic of China.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=AYL)

1. As noted in the chairman's statement, the group sought to "optimise its production through the implementation of [Good Manufacturing Practice] (GMP) transformation projects to reduce production costs and improve risk management and control capabilities." (page 6)

- (i) Would management confirm that the group has a single manufacturing facility in Qionghai City, Hainan Province?**
- (ii) What is the current capacity of the group's manufacturing facilities?**
- (iii) Has the plant received its GMP certification under the new GMP regulation issued by the China's State Food and Drug Administration?**
- (iv) What was the utilisation rate of the plant?**

2. On the operational front, the chairman also reported on the following successes in FY2018:

- Production approval obtained for Acetylcysteine Solution for Inhalation; two exclusive specifications from National Medical Products Administration (NMPA), the national agency for regulating drugs and medical devices
- Rocuronium Bromide Injection is currently under review and approval expected in 2019
- Commenced generic-drug-consistency evaluation for two products
- Started R&D on several new products, of which two products under R&D are expected to be submitted to NMPA in 2019 for application
- Vecuronim Bromide for Injection was conferred the Hainan High-tech Product certificate for its excellent quality

On the other hand, the chairman has also cautioned that it will be a challenging environment going forward as requirements for purchase with target quantity and generic-drug-consistency evaluation kick in.

Revenue increased from RMB95.3 million to RMB242.3 million in FY2018 with the sale of other specialised drugs leading the increase from RMB65.5 million to RMB205.5 million, of which sale of inhalation drugs amounting to RMB 74.4 million.

- (i) To help shareholders understand the business better, would management disclose the top 5 - top 10 drugs (by sales)?**
- (ii) Specifically, what were the revenue contributions from Potassium Sodium Dehydroandrographolide Succinate for Injection and Acetylcysteine Solution for Inhalation?**
- (iii) What is the group's market share for these two products and how much more growth is management targeting in the next 2-3 years?**

3. As noted in the Consolidated statement of cash flows (page 48), the group achieved net cash from operating activities of RMB34.7 million and RMB26.0 million in FY2018 and FY2017 respectively.

Cash and cash equivalents at the end of the financial year amounted to RMB87.1 million.

The group had also bought into non-principal protected financial products from several local PRC financial institutions with tenures ranging from 1 month to 6 months and with the option to terminate or redeem early. The amounts were as large as RMB51 million.

- (i) Has the board, especially the audit committee, reviewed and approved the purchase of financial products of up to RMB51 million?**
- (ii) Can management help shareholders understand if the purchase of financial products is aligned with the group's strategic direction and risk management framework?**

The board has stated that dividends were not declared for FY2018 as the company wishes to conserve cash for future potential development and for the ongoing business.

- (iii) Has the board considered if the company could support the growth of the group and provide returns in the form of dividend to its capital providers, i.e shareholders?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Star%20Pharmaceutical%20Ltd&cid=6453>

The company's response could be found here: -----