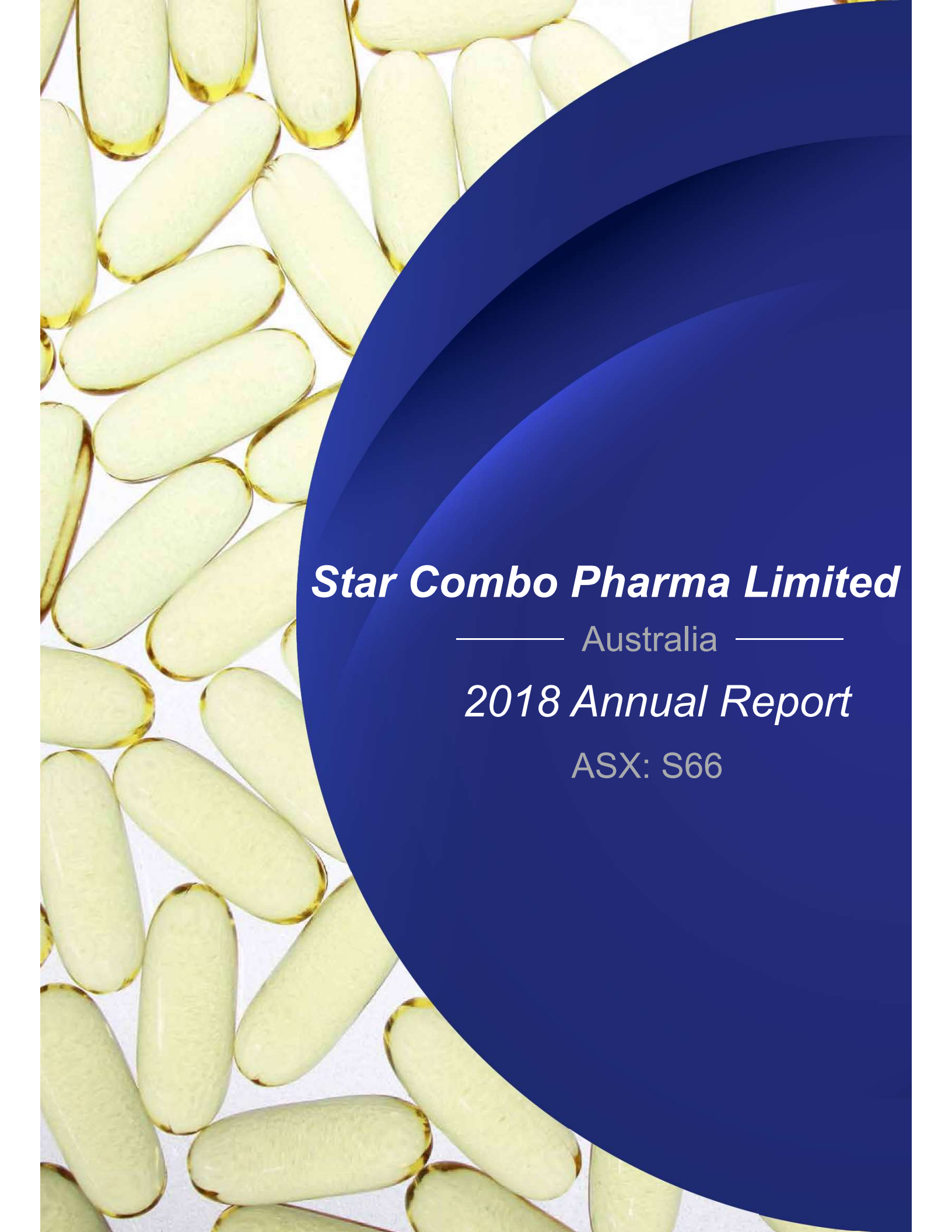


The background of the cover features a close-up, high-angle shot of numerous yellow, oval-shaped capsules scattered across a white surface. On the right side, a large, dark blue circular graphic with a gradient effect overlaps the capsule image. The text is positioned within this blue area.

Star Combo Pharma Limited

—— Australia ——

2018 Annual Report

ASX: S66

STAR COMBO PHARMA LTD AND CONTROLLED ENTITIES

ABN 38 615 728 375

ANNUAL REPORT - 30 JUNE 2018

STAR COMBO PHARMA LTD AND CONTROLLED ENTITIES
ABN 38 615 728 375

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STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

CORPORATE GOVERNANCE STATEMENT

The Board of Star Combo Pharma Ltd (the “Company”) and Senior Management are committed to acting responsibly, ethically and with high standards of integrity. The Company is committed to implementing the highest standards of corporate governance appropriate to it, taking into account the Company’s size, structure and nature of its operations.

The Board considers and applies the ASX Corporate Governance Council’s Governance Principles and Recommendations (3rd Edition) (“the Recommendations”) taking into account the circumstances of the Company. Where the Company’s practices depart from a recommendation, the Corporate Governance Statement identifies the area of divergence and the reasons for divergence and any alternative practices adopted by the Company.

The practices detailed in the 2018 Corporate Governance Statement and the documents referred to in it are available on the Company’s website at <http://investors.starcombo.com.au/Investors/>. The Corporate Governance Statement has been approved by the Board of Star Combo Pharma Limited and is current as at 30 August 2018.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Star Combo Pharma Limited and the entities it controlled at the end of, or during, the financial year ended 30 June 2018.

DIRECTORS

The following persons were directors of Star Combo Pharma Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr Richard Allely – Chairman, Non-executive (appointed 2 February 2018)
Mr Jinxing (Star) Zhang – Managing Director
Miss Su Zhang – Chief Executive Officer
Mr Craig Bottomley – Non-executive Director (appointed 17 April 2018)
Dr Ziyi Sui – Non-executive Director (appointed 21 June 2018)
Miss YanZhen Song – Non-executive Director (resigned 2 February 2018)

Particulars of each director's skills, experience and qualifications are set out below:

Richard Allely **Chairman, Non-executive**

Qualifications

- Master of Business Administration and Management (MBA)
- Diploma in Corporate Management (DipCM)
- Certificate in Accounting & Commerce

Experience and expertise

Richard was appointed to the Board in 2018 as an independent Non-Executive Director and Chairman. Richard currently sits on the boards of the Australasian Medical Publishing Co Pty Limited (Chairman). Richard has previously held non-executive roles on the boards of Perisher Blue Pty Ltd, Australian Property Monitors Pty Ltd and Source Financial Inc. (a USA Public Company). He has also been an independent member of WorkCover Authority of NSW and an advisory board member of Renoir Consulting Group.

Richard was the Managing Director and CEO of PMP Limited (PMP) until 2012, when he stepped down from the position, after serving just over 10 years with the company (7 years as CFO). PMP is the largest printing and distribution company in Australia and New Zealand with a turnover in excess of \$A1 billion.

Prior to this, Richard held senior executive roles with a number of leading Australian and International companies including Tenix Pty Limited (formerly Transfield Pty Limited), John Fairfax Holdings Limited, Boral Limited, James Hardie Industries Limited and Fanner-PLP Pty Limited. Richard has significant experience in the manufacturing, building & construction and publication and media sectors within Australia and South East Asia.

Interest in shares and options

Options over ordinary shares: 1,000,000

Ordinary shares: None.

Other current directorships

- Australasian Medical Publishing Co Pty Limited

Former directorships of listed companies in last three years

None.

Special responsibilities

None.

DIRECTORS' REPORT

Star (JinXing) Zhang
Managing Director

Qualifications

- Bachelor of Science (Biochemistry major)

Experience and expertise

Star was appointed to the Board in 2016 as Managing Director. Star is the founder of Star Combo and has a strong background in the pharmaceutical industry. After graduation from university, Star worked for 10 years at a medical research company in China which produced hard gel capsules, tablets and injections. While there, he pioneered the extraction and purification of hyaluronic acid, important as a lubricant in ocular surgery. Furthermore, he developed methods to separate low molecular weight hyaluronic acid, which is used in cosmetics. Star then immigrated to New Zealand, where he studied Commerce at the University of Auckland for one year. Upon returning to Australia, Star incorporated Star Combo in 2004 to address the need for high quality and affordable Australian made health foods in the market.

Interest in shares and options

Options over ordinary shares: None.

Ordinary shares: 38,165,510

Other current directorships

- Antoine International Pty Ltd

Former directorships of listed companies in last three years

None.

Special responsibilities

None.

Su Zhang
Chief Executive Officer

Qualifications

- Master of Business Administration
- Graduate Certificate in Commerce
- Bachelor of Pharmacy

Experience and expertise

Su has been working in the pharmaceutical industry for over 10 years, starting her career with Terry White Chemists after graduating in 2006. Upon leaving Terry White Chemists, Su worked for 3 years at Abbott Australia. She commenced at Abbott Australia as a Senior Drug Safety Associate and later moved into the role of Asia Pacific Regional Manager. In 2009, Su commenced employment with Star Combo, initially focusing her efforts on obtaining a TGA license for Costar Pharma. Su's responsibilities within Star Combo include quality control and compliance, operational management, production planning and sales cycle management.

Interest in shares and options

Options over ordinary shares: None.

Ordinary shares: 11,448,980

Other current directorships

- Costar Pharma Laboratory Pty Ltd

Former directorships of listed companies in last three years

None.

Special responsibilities

None.

DIRECTORS' REPORT

Craig Bottomley
Non-executive Director

Experience and expertise

Craig is currently the Executive Chairman and a founder of Building Interactive Pty Ltd, a technology company established in 2015 that provides a software platform for participants in the real estate sector. Craig has over 20 years' experience in establishing and developing commercial ventures covering various industries, including pharmaceuticals, technology and personal care products. Craig served as Chairman of Real Estate Agent Select Pty Ltd from 2014 to 2016. The company is an independent lead generation business in real estate. Mr. Bottomley assisted in securing funding, strategy and establishing corporate governance policies. Craig was a founder of ASX listed company Mayne Pharma Group Limited, serving as Chief Operating Officer and a Director from 2005 to 2010. He was one of the key team members who facilitated the acquisition for Mayne Pharmaceuticals International Pty Ltd in 2009. Mayne Pharma currently ranks in the S&P/ASX 200 index.

Craig was a founder and a Director of ASX listed company BWX Limited from 2013 to 2017. His role focused on strategy, acquisitions and securing funding to grow the company from a private personal care manufacturing business to a vertically integrated manufacturing and branded ASX listed business; the most significant acquisition being the brand Sulkin, which was acquired in 2015. BWX Limited became a listed ASX company in 2015 and currently ranks in the S&P /ASX 300 index.

Interest in shares and options

Options over ordinary shares: 800,000

Ordinary shares: None.

Other current directorships

- Immersa Skincare Pty Ltd
- Magnum Capital Pty Ltd
- Sainters Pty Ltd

Former directorships of listed companies in last three years

- BWX Ltd

Special responsibilities

None.

DIRECTORS' REPORT

Dr Ziyi Sui
Non-executive Director

Qualifications

- M.D., Ph.D.

Experience and expertise

As a senior manager in the Medical Device industry, Dr. Sui has extensive knowledge and experience in Medical Device production, regulation, sales and marketing in both Chinese and international market. With recent experience in pharmaceutical wholesale and retail business, she managed to build up a B2C platform of homecare medical devices and healthcare products, which could be helpful for Costar products introduction in Chinese market.

Interest in shares and options

Options over ordinary shares: None.

Ordinary shares: None.

Other current directorships

- Vice President: Lepu Medical Technology (Beijing) Co., Ltd
- Board Director: Hainan MSD Pharmaceutical Co., Ltd
- Chief Technology Officer (CTO): Comed BV
- Chief Executive Officer (CEO): Lepu Hushengtang Internet Technology Co., Ltd

Former directorships of listed companies in last three years

None.

Special responsibilities

None.

COMPANY SECRETARY/CFO

Richard Hill (appointed 20 February 2018)

Qualifications

- BCom
- CA

Experience and expertise

Richard has strong expertise in the resources sector and currently provides audit and advisory services to various ASX listed companies as well as various unlisted public companies. His key specialities are in the following areas:

- Advice to ASX listed companies
- Corporate secretarial
- Project feasibilities
- IPO and Prospectus work

Interest in shares and options

Ordinary shares: 12,000

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

DIRECTORS' REPORT

MEETINGS OF DIRECTORS

During the financial year, 7 meetings of directors (including committees of directors) were held. Attendance by each director during the year was as follows:

	Directors' Meetings	
	Number eligible to attend	Number attended
Richard Allely	4	4
Star (JinXing) Zhang	7	7
Su Zhang	7	6
Craig Bottomley	1	1
Ziye Sui	0	0
Yanzhen Song	3	3

PRINCIPAL ACTIVITIES

The principal activities of the group during the financial year were the manufacture and distribution of health food products and nutritional supplements. No significant change in the nature of these activities occurred during the year.

REVIEW OF OPERATIONS

The loss after income tax for the year ended 30 June 2018 was \$1.97 million (2017: profit after income tax of \$1.64 million).

During the financial year ended 30 June 2018, the following significant expenses were incurred:

- Non-recurring expenses related to the IPO of \$0.76 million (2017: \$nil)
- Share based payment expense relating to employee options issues of \$1.92 million (2017: \$nil)
- Marketing costs relating to the Terry White Chemist & Living Healthy Investment of \$1.41 million (2017: \$nil)

Key financial highlights for the year include:

- The Group recorded sales for the financial year of \$10.90 million, an increase of 11% from the previous financial year (2017: \$9.84 million).
- The acquisition and integration of the 'Living Healthy' brand (see Note 9 for further information).

Working capital (being the difference between current assets and current liabilities) has increased by 65% to \$13 million (30 June 2017: \$8 million). This increase reflects the working capital requirement associated with the organic revenue growth.

DIVIDENDS

During the financial year dividends of \$900,000 were declared and paid (2017: \$70,000).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Star Combo Pharma Ltd was incorporated on 6 November 2016 and undertook an initial public offering on 15 May 2018. Total funds raised on IPO was \$7m. After paying off the secured debts of \$1.6m the balance of proceeds has been applied to marketing and development, including the acquisition and development of the Living Healthy brand.

There were no other significant changes in the state of affairs of the Star Combo Group during the financial period.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

DIRECTORS' REPORT

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Ausway Group Acquisition

On 8 August 2018, Star Combo Pharma Group (Star Combo) and Ausway Group announced that a Heads of Agreement had been signed, under which it is proposed that Star Combo Group will acquire 100% of the Ausway Group of companies (Ausway), being Ausway Pharmaceutical Pty Ltd, Austoyou Group Pty Limited and Koala Mall Pty Limited.

Ausway specialise in the supply and distribution of vitamins and dietary supplements both in Australia and overseas with a particular emphasis on its e-commerce platform which sells directly into China. Ausway currently generates revenues in excess of \$18 million with positive earnings.

The business of Ausway is complementary to Star Combo and is a significant customer of Star Combo's contract manufacturing division (6th largest client). The business has a total of 10 employees, and is located in Sydney. Ausway has been in business for approximately 10 years.

The total consideration is agreed at 10 times the June 2018 annual after tax profit.

Richlink Exercise of Options

On 9 August 2018, Richlink Limited exercised 3,960,171 options at an exercise price of \$0.45 per share. This increased the total shareholding to 6,360,170 shares, being 8.00% of the issued share capital of Star Combo Pharma Ltd, meaning they are now considered to be a significant shareholder.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the Star Combo Group's operations, the results of those operations or the Star Combo Group's state of affairs.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Further information on the likely developments in the operations of the Group, and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATION

The directors recognise the importance of environmental and occupational health and safety issues. The directors are committed to compliance with all relevant regulations to ensure the protection of the environment, the community and the health and safety of employees. The operations of the Group are not subject to any particular and significant environmental regulation under the law of the Commonwealth of Australia or any of its states or territories or New Zealand.

SHARE OPTIONS AND RIGHTS OUTSTANDING

As at the date of this report there are 3,770,000 options outstanding in relation to Star Combo ordinary shares. The expiry date of the options range between March 2021 and June 2023 and the weighted average exercise price is \$0.56.

Holders of outstanding share options in relation to Star Combo ordinary shares do not have any rights under the share options to participate in any share issue or interest of Star Combo.

There were 4,060,171 ordinary shares of Star Combo issued on the exercise of options or share rights during the period ended 30 June 2018 and up to the date of this report.

DIRECTORS' REPORT

INDEMNITY AND INSURANCE OF OFFICERS

Indemnification

Under the Star Combo Constitution, unless prohibited by statute, Star Combo indemnifies current and former directors and officers for any loss arising from any claim by reason of any wrongful act committed by them in their capacity as a director or officer (subject to certain exclusions as required by law). During the financial period, Star Combo has paid premiums in respect of contracts insuring the directors and officers of Star Combo against any liability of this nature.

Star Combo has not, during or since the end of the financial period, indemnified or agreed to indemnify an officer or auditor of Star Combo or any related entity against a liability as such by an officer or auditor except to the extent permitted by law.

Insurance premiums

In accordance with normal commercial practices, under the terms of the insurance contracts, the nature of liabilities insured against and the amount of the premiums paid are confidential.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the auditor (BDO East Coast Partnership) for non-audit services provided during the financial year are outlined in Note 22 to the financial statements.

The Board of Directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in the relevant professional requirement, including reviewing and auditing the auditor's own work, acting in a management or a decision-making capacity for the Group, acting as an advocate for the Group or jointly sharing economic risks and rewards.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 16.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

DIRECTORS' REPORT

AUDITOR

BDO East Coast Partnership continues in office in accordance with section 327 of the *Corporations Act 2001*.

REMUNERATION REPORT

The Remuneration Report which forms part of this Directors' Report is presented separately on pages 11 to 15.

ROUNDING OF AMOUNTS

The Company is of a kind referred to the Australian Securities and Investments Commission Corporations Instrument 2016/191, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Act.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'Richard Allely', is written over a horizontal line.

Richard Allely
Chairman

31 August 2018

REMUNERATION REPORT

This remuneration report forms part of the directors' report for the year ended 30 June 2018 and details the nature and amount of remuneration for director, non-executive directors and other key management personnel ("KMP") of Star Combo Pharma Ltd and controlled entities.

REMUNERATION POLICY

The remuneration policy of the Group has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and bonuses issued at the discretion of the board of the company. The Board of Directors of the Group believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the company, as well as create goal congruence between directors, executives and shareholders.

All remuneration paid to key management personnel (directors and others) is valued at the cost to the company and expenses or where appropriate transferred to capital items. Shares issued to key management personnel are valued as the difference between the market price of those shares and the amount paid by the key management person. Share options are valued using the binomial option valuation methodology. Shares and options granted to key management personnel (directors and others) are subject to any necessary approvals required by the ASX Listing Rules.

DIRECTORS AND KEY MANAGEMENT PERSONNEL

The term "key management" as used in this remuneration report to refers to the following directors and executives:

Directors

The following persons acted as directors of the Company during the financial year or up to the date of this report:

Richard Allely (appointed 2 February 2018)	(Chairman)
Star (Jinxing) Zhang	(Managing Director)
Su Zhang	(Chief Executive Officer)
Craig Bottomley (appointed 17 April 2018)	(Non-executive Director)
Dr. Ziyue Sui (appointed 21 June 2018)	(Non-executive Director)
YanZhen Song (resigned 2 February 2018)	(Human Resource Manager)

Executives

The following person acted as senior management of the company during the financial year or up to the date of this report:

Mr Richard Hill (Company Secretary and Chief Financial Officer)

The company does not consider other employees and consultants to be Key Management Personnel.

ENGAGEMENT OF REMUNERATION CONSULTANTS

There is no engagement of remuneration consultants.

PERFORMANCE-BASED REMUNERATION

At this point, there is no performance-based remuneration, other than options issued to non-executive directors and employee options issued to certain key employees. The issue of options is designed to align the interest of non-executive directors, key employees and shareholders.

PERFORMANCE CONDITIONS LINKED TO REMUNERATION

There are no performance conditions linked to remuneration.

CHANGES IN DIRECTORS AND EXECUTIVES SUBSEQUENT TO THE YEAR END

There have been no changes in Directors and Executives subsequent to year end.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

REMUNERATION REPORT

EMPLOYMENT DETAILS OF MEMBERS OF KEY MANAGEMENT PERSONNEL

The following table provides employment details of persons who were, during the financial year, members of KMP of the Group. The table also illustrates the proportion of remuneration that is performance and non-performance based.

	Position held as at 30 June 2018 and during the year	Contract details (duration and termination)	Proportion of remuneration related to performance (Other than options issued)		Proportion of remuneration not related to performance
<i>Group KMP</i>			Non-salary cash-based incentives	Shares	Fixed Salary/Fees
			%	%	%
Mr Richard Allely	Chairman	No fixed term. Two month's notice required to terminate.	-	-	100
Mr Craig Bottomley	Non-executive Director	No fixed term. One month notice required to terminate.	-	-	100
Ms Ziyi Sui	Non-executive Director	No fixed term. Two months' notice required to terminate.	-	-	100
Mr Star (Jinxing) Zhang	Managing Director	No fixed term. Three months' notice required to terminate.	-	-	100
Ms Su Zhang	Chief Executive Officer	No fixed term. Two months' notice required to terminate.	-	-	100
Ms Yanzhen Song	Non-executive Director (resigned)	N/A	-	-	100
Mr Richard Hill	Company Secretary/Chief Financial Controller	No fixed term. One month notice required to terminate.	-	-	100

The employment terms and conditions of all key management personnel are formalised in contracts of employment.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

REMUNERATION REPORT

REMUNERATION EXPENSE DETAILS FOR THE YEAR ENDED 30 JUNE 2018

The following table of benefits and payments represents the components of the current year and comparative year remuneration expenses for each member of KMP of the consolidated group. Such amounts have been calculated in accordance with Australian Accounting Standards.

		Salary, Fees and Leave	Pension and Super- annuation	Cash bonus***	Long service leave	Shares/Units**	Options/ Rights*	Total
Group KMP	Year	\$	\$	\$	\$	\$	\$	\$
Mr Richard Allely	2018	56,663	-	20,000	-	-	129,091	205,754
	2017	-	-	-	-	-	-	-
Mr Craig Bottomley	2018	9,499	-	-	-	-	103,273	112,772
	2017	-	-	-	-	-	-	-
Ms Ziye Sui	2018	1,700	-	-	-	-	-	1,700
	2017	-	-	-	-	-	-	-
Mr Star (Jinxing) Zhang	2018	69,609	-	-	-	-	-	69,609
	2017	80,650	-	-	-	-	-	80,650
Ms Su Zhang	2018	84,592	8,036	-	-	-	-	92,628
	2017	60,398	5,683	-	-	-	-	66,081
Ms Yanzhen Song	2018	124,217	11,800	-	-	-	48,180	184,197
	2017	162,162	15,405	-	-	-	-	177,567
Mr Richard Hill	2018	106,466	-	-	-	62,650	-	169,116
	2017	136,150	-	-	-	-	-	136,150

*This represents the fair value of options granted during the financial year which have not yet been exercised. The options are valued using the binomial option valuation method, please see further information at Note 14.

**Shares in Star Combo Pharma Ltd were issued to Richard Hill as payment for services in connection with the IPO.

***The cash bonus was paid to Richard Allely as a result of the successful IPO.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

REMUNERATION REPORT

OPTIONS AND RIGHTS HELD BY KEY MANAGEMENT PERSONNEL

The numbers of options to purchase ordinary shares held at the date of this report by each Director of Star Combo Pharma Ltd and each of the other key management personnel are listed below. On exercise, each option is convertible into one ordinary share of Star Combo Pharma Ltd. All of the options vested on the date of grant.

Please note that no share options were on issue at the beginning of the year.

	Grant Details					Exercised		Balance at end of year	
	Grant date	Expiry date	Exercise price \$	No.	Value \$	No.	Value \$	No.	Value \$
Group KMP									
Mr Richard Allely	16/02/2018	16/05/2021	0.625	1,000,000	129,091	-	-	1,000,000	129,091
Mr Craig Bottomley	17/04/2018	16/05/2021	0.625	800,000	103,273	-	-	800,000	103,273
Ms Ziye Sui			-	-	-	-	-	-	-
Mr Jinxing Zhang			-	-	-	-	-	-	-
Ms Su Zhang			-	-	-	-	-	-	-
Ms Yanzhen Song	15/06/2018	15/06/2023	0.500	60,000	48,180	-	-	60,000	48,180
Mr Richard Hill		-	-	-	-	-	-	-	-
TOTAL				1,860,000	280,544	-	-	1,860,000	280,544

See Note 14 of the financial statements for further information on share options issued.

KEY MANAGEMENT PERSONNEL SHAREHOLDING MOVEMENTS

The number of ordinary shares in Star Combo Pharma Ltd held by each director and member of key management personnel of the Group during the financial year are as follows:

Group KMP	Balance at beginning of the year	Granted as remuneration during the year	Issued on exercise of options during the year	Other changes during the year	Balance at end of the year
Mr Richard Allely	-	-	-	-	-
Mr Craig Bottomley	-	-	-	-	-
Ms Ziye Sui	-	-	-	-	-
Mr Star(Jinxing) Zhang	-	-	-	38,165,510	38,165,510
Ms Su Zhang	-	-	-	11,448,980	11,448,980
Ms Yanzhen Song	-	-	-	-	-
Mr Richard Hill	-	179,000	-	(167,000)	12,000

OTHER EQUITY RELATED KEY MANAGEMENT PERSONNEL TRANSACTIONS

There have been no other transactions involving equity instruments apart from those described in the tables above relating to options, rights and shareholdings.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

REMUNERATION REPORT

LOANS TO KEY MANAGEMENT PERSONNEL

During the year ending 30 June 2017, a shareholder loan was advanced to Jinxing (Star) Zhang of \$315,892 by Star Combo Australia Pty Ltd, the balance outstanding as at 30 June 2017 was \$823,198. Interest of \$78,443 was charged in respect of the loan during the 2018 financial year (2017: \$Nil). During the financial year ending 30 June 2018, the shareholder loan was repaid via the payment of a dividend of \$891,000 to Mr Zhang. Mr Zhang further advanced \$146,192 to Star Combo Australia Pty Ltd (2017: \$Nil). As at 30 June 2018, Star Combo Australia Pty Ltd owed Mr Zhang \$135,551.

No other loans were made to key management personnel, including their personally related entities, during the financial year ended 30 June 2018 or 30 June 2017.

DECLARATION OF INDEPENDENCE BY GRANT SAXON TO THE DIRECTORS OF STAR COMBO PHARMA LTD

As lead auditor of Star Combo Pharma Ltd for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Star Combo Pharma Ltd and the entities it controlled during the period.



Grant Saxon
Partner

BDO East Coast Partnership

Sydney, 31 August 2018

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018**

	Note	Consolidated	
		2018	2017
		\$	\$
Revenue and other income	2	10,902,233	9,841,893
Cost of sales	3	(6,403,320)	(5,797,735)
Bad debt expense		(101,839)	(47,947)
Distribution and commission expense		(124,470)	-
Marketing and selling costs		(1,465,994)	(170,020)
Administrative expenses		(4,247,221)	(1,254,132)
Finance costs		(104,164)	(105,676)
Foreign exchange gain/(loss)		134,010	(122,289)
IPO costs		(761,720)	-
(Loss)/profit before income tax		(2,172,485)	2,344,094
Income tax expense	4	199,148	(708,940)
(Loss)/profit for the year		(1,973,337)	1,635,154
Other comprehensive income, net of tax		-	-
Total comprehensive income for the year		(1,973,337)	1,635,154
Total comprehensive income attributable to members of Star Combo Pharma Ltd		(1,973,337)	1,635,154
Earnings per share			
Basic (loss) / earnings per share (cents)	16	(0.03)	0.03
Diluted (loss) / earnings per share (cents)	16	(0.03)	0.03

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

		Consolidated	
	Note	2018 \$	2017 \$
ASSETS			
Current assets			
Cash and cash equivalents	5	8,941,796	6,205,914
Trade and other receivables	6	2,754,015	4,100,166
Inventories	7	3,470,015	2,409,963
Current tax assets	4	149,862	-
Other assets		32,335	32,242
Total current assets		15,348,023	12,748,285
Non-current assets			
Property, plant and equipment	8	2,521,204	2,593,807
Deferred tax assets	4	500,127	127,966
Intangible assets	9	664,587	-
Total non-current assets		3,685,918	2,721,773
Total assets		19,033,941	15,470,058
LIABILITIES			
Current liabilities			
Trade and other payables	10	2,715,809	1,918,890
Borrowings	11	-	1,034,558
Provisions	12	47,322	70,748
Current tax liabilities	4	-	1,401,204
Total current liabilities		2,763,131	4,425,400
Non-current liabilities			
Borrowings	11	-	585,898
Provisions	12	13,372	9,500
Total non-current liabilities		13,372	595,398
Total liabilities		2,776,503	5,020,798
Net assets		16,257,438	10,499,260
EQUITY			
Issued capital	13	37,325,236	5,001,101
Group reorganisation reserve	1 (B)	(25,498,900)	-
Share based payment reserve	14	1,856,279	-
Retained earnings		2,574,823	5,448,160
Total equity		16,257,438	10,449,260

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

	Note	Ordinary share capital \$	Group reorganisation reserve \$	Share based payment reserve \$	Retained earnings \$	Total Equity \$
Balance at 1 July 2016		1,100	-	-	3,883,006	3,884,106
Profit after income tax for the year		-	-	-	1,635,154	1,635,154
Other comprehensive income, net of tax		-	-	-	-	-
Total comprehensive income for the year		-	-	-	1,635,154	1,635,154
<i>Transactions with equity holders in their capacity as owners:</i>						
Dividends paid		-	-	-	(70,000)	(70,000)
Shares issued		5,000,000	-	-	-	-
Balance at 30 June 2017		5,001,100	-	-	5,448,160	10,449,260
Balance at 1 July 2017		5,001,100	-	-	5,448,160	10,449,260
Loss after income tax for the year		-	-	-	(1,973,337)	(1,973,337)
Other comprehensive income, net of tax		-	-	-	-	-
Total comprehensive income for the year		-	-	-	(1,973,337)	(1,973,337)
<i>Transactions with equity holders in their capacity as owners:</i>						
Dividends paid	15	-	-	-	(900,000)	(900,000)
Share options issued	14	-	-	1,856,279	-	1,856,279
Shares issued	13	32,663,400	(25,498,900)	-	-	7,164,500
Share issue costs	13	(339,264)	-	-	-	(339,265)
Balance at 30 June 2018		37,325,236	(25,498,900)	1,856,279	2,574,823	16,257,438

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

		Consolidated	
	Note	2018	2017
		\$	\$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		12,501,449	8,625,660
Payments to suppliers and employees (inclusive of GST)		(12,693,394)	(7,447,032)
Interest received		118,905	-
Interest and other financial cost paid		(109,231)	(105,676)
Income tax paid		(1,655,575)	(140,754)
Net cash from operating activities	17	(1,837,846)	932,198
Cash flows from investing activities			
Payments for plant and equipment	8	(198,720)	(261,131)
Payments for brand names		(614,587)	-
Net cash used in investing activities		(813,307)	(261,131)
Cash flows from financing activities			
Loans from related parties		354,797	-
Proceeds from issue of shares		87,650	5,000,000
Proceeds from issue of shares on IPO	12	7,000,000	-
Costs of raising equity		(434,955)	-
Proceeds from borrowings		-	600,000
Repayment of borrowings		(1,620,456)	(225,098)
Net cash from financing activities		5,387,036	5,374,902
Net increase in cash and cash equivalents		2,735,883	6,045,969
Cash and cash equivalents at the beginning of the financial year		6,205,913	159,944
Cash and cash equivalents at the end of the financial year	5	8,941,796	6,205,913

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Star Combo Pharma Ltd and its subsidiaries.

(A) BASIS OF PREPARATION

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

The financial report is presented in Australian dollars which is the Group's functional and presentation currency.

Compliance with IFRS

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRSs ensures that the financial report of Star Combo Pharma Ltd complies with the International Financial Reporting Standards (IFRS).

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Comparative information and presentation

The Group presents reclassified comparative information, where required, for consistency with the current period's presentation. When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Rounding of amounts

The Company is of a kind referred to the Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to 'rounding-off'. Amounts in this report have been rounded to the nearest dollar.

(B) GROUP REORGANISATION

Star Combo Pharma Ltd (the Company) was incorporated on 4 November 2016. During January and February 2018, the shareholders of the Company, the Directors and management undertook a group reorganisation process, through which Star Combo Pharma Ltd became the legal parent of the following entities:

- Star Combo Australia Pty Ltd (acquired 25 January 2018)
- CoStar Pharma Laboratory Pty Ltd (acquired 1 February 2018)

The reorganisation was made in connection with the upcoming initial public offering ('IPO') which was successfully completed on 16 May 2018. The reorganisation represents a business combination of entities or businesses under common control and therefore the requirements of AASB 3 *Business Combinations* do not apply.

The Directors have elected to account for the restructure as a capital re-organisation. In the Directors' judgement, the continuation of existing accounting values is consistent with the accounting that would have occurred if the assets and liabilities had already been included in a structure suitable to IPO, and most appropriately reflects the substance of the internal restructure.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

(B) GROUP REORGANISATION (CONTINUED)

Accordingly the consolidated financial report of Star Combo Pharma Ltd for the year ended 30 June 2018 has been presented as a continuation of the pre-existing accounting values of the assets and liabilities in the Star Combo Australia Pty Ltd consolidated financial statements and includes the results of the companies under common control, Star Combo Australia Pty Ltd and CoStar Pharma Laboratory Pty Ltd from 1 July 2017 to 25 January 2018, and the consolidated group under Star Combo Pharma Ltd from 25 January 2018 to 30 June 2018. The comparative information presented in the financial statements represents the financial position and financial performance of the companies under common control, Star Combo Australia Pty Ltd and CoStar Pharma Laboratory Pty Ltd for the year ended 30 June 2017. The difference between the cost of the transaction and the net assets of the companies under common control at the date of restructure of \$25,498,900 has been accounted for as a Group reorganisation reserve.

In adopting this approach, the Directors note that there is an alternative view that such a restructure should be accounted for as a business combination, which follows the legal structure of Star Combo Pharma Ltd being the acquirer. If this view were taken, the net assets of the entities under common control would have been uplifted to fair value, with consequent impacts on the Consolidated Statement of Profit and Loss and Other Comprehensive Income, and the Consolidated Statement of Financial Position. The Directors did not consider that this treatment was reflective of the transaction.

(C) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company or which are subject to common control. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over a subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group accounting policies.

(D) FINANCIAL INSTRUMENTS

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is the date that the entity commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

(D) FINANCIAL INSTRUMENTS (CONTINUED)

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost. Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

Regular way purchases and sales of financial assets are recognised and derecognised at settlement date in accordance with the Group's Accounting Policy.

The Group does not designate any interests in subsidiaries, associates or joint ventures as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

(i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(ii) *Financial liabilities*

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

(E) IMPAIRMENT OF ASSETS

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Assets that are subject to depreciation (amortisation) are tested for impairment whenever changes in circumstances indicate that the asset's carrying amount may exceed its recoverable amount. An impairment charge is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Assets that suffer an impairment are reviewed for possible reversal of the impairment at each reporting date.

(F) FOREIGN CURRENCY TRANSACTIONS AND BALANCES

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars, which is Group's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

(G)GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(H)CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the preparation of the financial report management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the bases of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is reviewed if the revision affects only that period, or in the period of this revision and future periods if the revision affects both current and future periods.

Key estimates and judgements

Impairment - Intangibles

The Group assesses impairment at the end of each reporting period by evaluating the conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions. The directors do not consider any impairment should be recognised in respect of the recently acquired Living Healthy brand during the financial year based on future cash flow projections which have been discounted appropriately.

Provision for impairment of receivables

Included in trade receivables at the end of the reporting period are some receivables over 90 days from sales made to a number of customers during the current financial year. Management have estimated the provision for impairment of receivables based on payment and communication histories of these customers including records of payments received post balance date.

Group reorganisation

The Group undertook a capital reorganisation during the financial year. The critical judgements made in accounting for the Group reorganisation are disclosed in Note 1 (B) to the financial statements.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

(I) NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

Certain new accounting standards and interpretations have been published that are not yet mandatory for 30 June 2018 reporting periods.

(i) **AASB 9 *Financial Instruments*** (applicable to annual reporting periods beginning on or after 1 January 2018)

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, and revised requirements for financial instruments and hedge accounting.

The key changes include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

The Group has not yet started their assessment of the impact of AASB 9 on the financial statements.

(ii) **AASB 15 *Revenue from Contracts with Customers*** (applicable to annual reporting periods beginning on or after 1 January 2018)

AASB 15 will replace AASB 118 which covers contracts for goods and services. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption.

The Group has not yet started their assessment of the impact of AASB 15 on the financial statements.

(iii) **AASB 16 *Leases*** (applicable to annual reporting periods beginning on or after 1 January 2019)

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: *Leases* and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard are as follows:

- recognition of a right-of-use asset and lease liability for all leases (excluding short-term leases with a lease term of 12 months or less of tenure and leases relating to low-value assets);
- depreciation of right-of-use assets in line with AASB 116: *Property, Plant and Equipment* in profit or loss and unwinding of the liability in principal and interest components;
- inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;
- application of a practical expedient to permit a lessee to elect not to separate non-lease components and instead account for all components as a lease; and
- inclusion of additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

The Group has not yet started their assessment of the impact of AASB 16 on the financial statements.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 2 – REVENUE AND OTHER INCOME

	Consolidated	
	2018	2017
	\$	\$
Sale of goods	10,749,440	9,786,628
Other revenue	33,888	55,265
Interest income	118,905	-
Total revenue and other income	10,902,233	9,841,893

Accounting policy

Sale of goods

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, the amount of revenue and costs incurred can be measured reliably, management have effectively ceased involvement of control over the goods sold and it is probable that the economic benefits associated with the transaction will flow to the Group. Amounts disclosed as revenue are net of returns, rebates and taxes paid.

Interest income

Interest income is recognised as the interest accrues using the effective interest method.

Other income

Other income is recognised when the significant risks and rewards have transferred.

NOTE 3 - EXPENSES

	Consolidated	
	2018	2017
	\$	\$
<i>(Loss)/profit before income tax from continuing operations includes the following specific expenses:</i>		
<i>Cost of sales</i>		
Materials	5,139,185	4,321,609
Employee benefits	701,964	485,264
Depreciation on plant and equipment	235,416	215,887
Rental expense relating to operating leases	132,914	88,282
Other cost of sales	192,841	656,693
	6,403,320	5,797,735
<i>Other expenses</i>		
Rental expense relating to operating leases	54,979	99,444
Depreciation on plant and equipment	35,907	49,787
Employee benefits	2,378,924	470,334
Share based payments to contractors	577,919	-

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 4 – INCOME TAX EXPENSE

	Note	Consolidated	
		2018 \$	2017 \$
(a) Components of the income tax expense			
Current tax expense	4(b)	74,396	708,940
Deferred tax expense	4(d)	(273,544)	-
		(199,148)	708,940

(b) Reconciliation of prima facie income tax expense

The prima facie tax on (loss)/profit from ordinary activities before income tax is reconciled to income tax as follows:

(Loss)/profit from continuing operations before income tax expense	(2,172,485)	1,635,154
Prima facie tax payable at 27.5% (2017:30%)	(597,433)	490,546
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Over-provision for income tax in prior year	(81,642)	-
Non-deductible expenses	(784)	-
Movement in temporary differences	480,711	218,394
Income tax expense	(199,148)	708,940

(c) Income tax (receivable)/payable - current

Income tax (receivable)/payable	(149,862)	1,401,204
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(d) Deferred tax – non-current

Deferred tax asset	500,127	127,966
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STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 4 – INCOME TAX EXPENSE (CONTINUED)

Accounting policy

Tax consolidation

The Company and its wholly-owned subsidiaries have formed a tax-consolidated group and are therefore taxed as a single entity from 1 February 2018. The head entity within the tax-consolidated group is Star Combo Pharma Ltd. The members of the tax-consolidated group are identified in Note 18. Tax expense, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the "separate taxpayer within group" approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Income tax

The income tax expense for the year comprises current income tax expense and deferred tax expense.

Current income tax expense charged to profit or loss is the tax payable on taxable income for the current period. Current tax liabilities are measured at the amounts expected to be paid to the relevant taxation authority using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

NOTE 5 – CASH AND CASH EQUIVALENTS

	Consolidated	
	2018	2017
	\$	\$
Cash at bank and on hand	8,941,796	6,205,914
	8,941,796	6,205,914

Accounting policy

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are reported within borrowings in current liabilities on the statement of financial position.

NOTE 6 – TRADE AND OTHER RECEIVABLES - CURRENT

	Consolidated	
	2018	2017
	\$	\$
Trade receivables	2,867,172	3,125,515
Provision for impairment (a)	(363,427)	(261,588)
Other receivables	250,270	108,379
Amounts receivable from related parties	-	1,127,860
	2,754,015	4,100,166

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 6 – TRADE AND OTHER RECEIVABLES – CURRENT (CONTINUED)

(a) Provision for impairment of trade receivables

Movements in the provision for impairments of trade receivables are as follows:

	Consolidated	
	2018	2017
	\$	\$
Opening balance as at 1 July	261,588	213,641
Charge for the year	101,839	47,947
Amounts written off	-	-
Closing balance as at 30 June	363,427	261,588

The average credit period on sale of goods is 60 days. The Group generally recognises an allowance for doubtful debts for trade receivables if management forms an opinion that the receivable may not be recoverable.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the debtor from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the Group is familiar with the customer base.

Accounting policy

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost, less any provision for doubtful debts.

NOTE 7 – INVENTORIES

	Consolidated	
	2018	2017
	\$	\$
Raw materials	3,339,847	2,297,927
Finished goods	153,592	135,460
Provision for obsolescence	(23,424)	(23,424)
	3,470,015	2,409,963

Inventories recognised as an expense during the year ended 30 June 2018 amounted to \$6,340,286 (2017: \$5,719,506). A charge of \$23,424 was taken to provide for obsolete inventories during the year ended 30 June 2017. No further provision was necessary as at 30 June 2018.

Accounting policy

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate proportion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on a first-in, first-out basis.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 8 – PROPERTY, PLANT & EQUIPMENT

Consolidated	Plant and Equipment	Leasehold improvements	Total
	\$	\$	\$
At 30 June 2017			
Cost	2,444,485	951,866	3,396,351
Accumulated depreciation	(755,813)	(46,731)	(802,544)
Net book amount	1,688,672	905,135	2,593,807
Year ended 30 June 2017			
Opening net book amount	1,816,808	782,336	2,599,144
Additions	119,363	145,116	264,479
Disposals	(4,142)	-	(4,142)
Depreciation	(243,357)	(22,317)	(265,674)
Closing net book amount	1,688,672	905,135	2,593,807
At 30 June 2018			
Cost	2,624,505	970,566	3,595,071
Accumulated depreciation	(1,004,186)	(69,681)	(1,073,867)
Net book amount	1,620,319	900,885	2,521,204
Year ended 30 June 2018			
Opening net book amount	1,688,672	905,135	2,593,807
Additions	180,020	18,700	198,720
Disposals	-	-	-
Depreciation	(248,373)	(22,950)	(271,323)
Closing net book amount	1,620,319	900,885	2,521,204

Accounting policy

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when 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. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

Depreciation is calculated on a straight line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are as follows:

Leasehold improvements	4–5%
Plant and equipment	5–33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in profit or loss in the period in which they arise.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 9 – INTANGIBLE ASSETS

	Consolidated	
	2018	2017
	\$	\$
Brand names		
Opening balance at 1 July	-	-
Additions	664,587	-
Impairment	-	-
Closing balance at 30 June	664,587	-

On 31 August 2017, Star Combo Australia Pty Ltd acquired the Living Healthy brand name and TGA Registrations for consideration of \$500,000, all of which had been settled by 30 June 2018. The total consideration of the \$500,000 was settled with \$450,000 in cash, with the balance of \$50,000 settled by issuance of 100,000 ordinary shares at \$0.50 per share. The remaining costs relate to expenditure incurred which was directly attributable to the cost of acquiring the brand.

Accounting policy

Brand names

Acquired brand names are recorded at historical cost. Brand names have an indefinite useful life as there is no foreseeable limit to the period over which they are expected to generate net cash inflows. They are assessed for impairment on an annual basis.

Impairment review

A comprehensive impairment review was conducted at 30 June 2018. The recoverable amount of indefinite life intangible assets was reviewed. The recoverable amount of the brand name is determined based on net present value of future cash inflows, using management budgets and forecasts for a five-year period, after adjusting for central overheads. Cash flows for the first 5 years are at growth rate of 10% based on the likely outcome of substantial marketing costs budgeted. Beyond 5 years are at growth rates of 4% which is similar to the long-term average growth rate for the industry in which the brand name is being operated. The discount rates used reflect specific risks relating to the relevant segments in which they operate. Any reasonable change to these key assumptions would not cause the carrying value of the brand name to materially exceed its recoverable amount.

NOTE 10 – TRADE AND OTHER PAYABLES - CURRENT

	Consolidated	
	2018	2017
	\$	\$
Unsecured liabilities:		
Trade payables	1,717,071	1,401,510
Sundry payables and accrued expenses	863,187	517,380
Amounts payable to related parties (Note 19)	135,551	-
	2,715,809	1,918,890

Accounting policy

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability, with the amounts normally paid within 30 days of recognition of the liability. Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 11 – BORROWINGS

	Consolidated	
	2018	2017
	\$	\$
CURRENT		
Bank loan	-	1,034,558
	-	1,034,558
NON-CURRENT		
Bank loan	-	585,898
	-	585,898
TOTAL BORROWINGS	-	1,620,456

The bank loan was fully repaid on 11 May 2018.

Accounting policy

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTE 12 – PROVISIONS

	Consolidated	
	2018	2017
	\$	\$
CURRENT		
Employee benefits	47,322	70,748
	47,322	70,748
NON-CURRENT		
Employee benefits	13,372	9,500
	13,372	9,500
TOTAL PROVISIONS	60,694	80,248

Accounting policy

Short-term employee benefits

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled. The Group's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as part of current trade and other payables in the statement of financial position. The Group's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 12 – PROVISIONS (CONTINUED)

Accounting policy (continued)

Long-term employee benefits

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurement for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months.

NOTE 13 – ISSUED CAPITAL

75,505,315 fully paid ordinary shares (2017: 10,204,181)

2018	2017
\$	\$
37,325,236	5,001,100

Movement in fully paid ordinary shares

Details

Date

Opening balance at 1 July 2017

Reclassified to reorganisation reserve (Note 1)

Issue of shares on acquisition of CoStar Pharma (1)

Issue of share on acquisition of Star Combo Australia (1)

Issue of shares at IPO (2)

Issue of shares on exercise of options (Note 14)

Issue of shares on acquisition of intangible assets (Note 9)

Issue of shares in lieu of services

Capital raising costs

Closing balance at 30 June 2018

Value of shares \$	Number of Shares
5,001,100	10,204,181
(5,001,100)	(10,204,181)
11,224,490	22,448,980
19,275,510	38,551,020
7,000,000	14,126,315
51,850	100,000
50,000	100,000
62,650	179,000
(339,264)	-
37,325,236	75,505,315

(1) Issue of shares on acquisition of subsidiaries

On 25 January 2018, Star Combo Pharma Ltd acquired 100% of the ordinary share capital of Star Combo Australia Pty Ltd from the existing shareholders. The purchase price of \$19,275,510 was paid to the sellers in via an issue of 38,551,020 ordinary shares (please see related party transactions note 19 for further information).

On 1 February 2018, Star Combo Pharma Ltd also acquired 100% of the ordinary share capital of CoStar Pharma Pty Ltd from the existing shareholders. The purchase price of \$11,224,490 was paid to the sellers via an issue of 22,448,980 ordinary shares (please see related party transactions note 19 for further information).

(2) Issue of shares at IPO

On 16 May 2018, Star Combo Pharma Ltd was admitted to the Australian Stock Exchange. On IPO the Company raised \$5,800,000 by the issue of 11,600,000 ordinary shares at a fully paid issue price of \$0.50 to the public. The Company also raised a further \$1,200,000 by the issue of 2,526,315 ordinary shares at a fully paid issue price of \$0.475 to Richlink Capital Pty Ltd.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 13 – ISSUED CAPITAL (CONTINUED)

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value.

NOTE 14 – SHARE BASED PAYMENTS

Star Combo Pharma Ltd has issued share options to both employees and consultants (non-employees) during the financial year. Shown below are the details of options and rights granted during the year.

	Share options Number	Share based payment reserve \$
Opening reserve 1 July 2016	-	-
Expense in the period	-	-
Granted	-	-
Exercised	-	-
Forfeited	-	-
Expired	-	-
Closing reserve 30 June 2017	-	-
Opening reserve 1 July 2017	-	-
Expense in the period	-	-
Granted to employees	1,670,000	1,341,010
Granted to non-employees	6,160,171	515,269
Exercised	(100,000)	-
Forfeited	-	-
Expired	-	-
Closing reserve 30 June 2018	7,730,171	1,856,279

Option pricing model

The fair value of equity-settled share options granted throughout the year is estimated at the date of grant using binomial option valuation model. The following table lists the inputs to the models used for the valuation of options granted during the year ended 30 June 2018. Please note that no options were granted during the year ended 30 June 2017.

	GRANT DATE				
	18 Oct 17	2 Nov 17	16 Feb 18	17 Apr 18	15 Jun 18
Number of options issued	400,000	3,960,171	1,000,000	800,000	1,670,000
Employee/non-employee	Non-employee	Non-employee	Non-employee	Non-employee	Employee
Fair value at measurement date (\$)	0.260	0.065	0.129	0.129	0.803
Share price at grant date (\$)	0.500	0.500	0.500	0.500	1.055
Exercise price (\$)	0.250	0.450	0.625	0.625	0.500
Expected volatility	45%	45%	45%	45%	76%
Option life	3 months from IPO	3 months from IPO	3 years	3 years	5 years
Dividend yield	-	-	-	-	-
Risk free interest rate	2.85%	2.85%	2.85%	2.85%	2.70%
Vesting conditions	Immediately on grant				

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 14 – SHARE BASED PAYMENTS (CONTINUED)

The expected dividend yield for all options granted during the period was nil. The expected life of the share options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the volatility of comparable listed entities, which may not be the actual outcome.

Accounting policy

Equity-settled share-based compensation benefits may be provided to contractors or employees in exchange for the rendering of services. The cost of equity-settled transactions is measured at fair value on grant date. Grant date is the date that both contracting parties have a clear understanding of the terms and conditions attached to the share based payment arrangement. Fair value is independently determined using the binomial option valuation method, the key assumptions of which are described above. The cost of the payment is charged to the profit and loss over its vesting period, being the period in which the service is rendered. Where non-market based vesting conditions are not satisfied and the underlying equity instrument lapses, is cancelled or forfeited, the amount previously charged to the profit and loss is credited back.

NOTE 15 – DIVIDENDS

Dividends paid during the financial year were as follows:

Dividends

Dividends paid for the year ended 30 June 2018 of \$9,000 (2017: \$700) per ordinary share

Franking credits

Franking credits available for subsequent financial years based on a tax rate of 30%

2018 \$	2017 \$
900,000	70,000
945,786	560,071

The dividends noted above were paid prior to Star Combo Pharma Ltd listing on the ASX, and were issued in order to clear down shareholder loans.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 16 – EARNINGS PER SHARE

	Consolidated	
	2018	2017
Basic earnings per share (cents)	(0.03)	0.03
Diluted earnings per share (cents)	(0.03)	0.03
	2018	2017
	\$	\$
Reconciliation of earnings used in calculating earnings per share		
Net (loss)/profit for the period	(1,973,337)	1,635,154
	2018	2017
	No. of shares	No. of shares
Reconciliation of shares used in calculating earnings per share		
<i>Basic and diluted earnings per share</i>		
Opening balance of shares for the period – adjusted for the impact of group reorganisation	61,000,000	61,000,000
Shares issued during the period	14,505,315	-
Closing balance of shares for the period (2017 adjusted for the impact of group reorganisation)	75,505,315	61,000,000
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	62,660,994	61,000,000

AASB 113.64 requires that where a share split occurs the calculation of basic and diluted EPS for all periods presented shall be adjusted retrospectively. 61,000,000 shares represent the proportion of shares at listing that were on hand in the previous period.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 17 – NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of (loss)/profit for the year to net cash flows from operating activities

	Consolidated	
	2018	2017
	\$	\$
(Loss)/profit for the year	(1,973,337)	1,635,154
<i>Non-cash and non-operating cash items:</i>		
Depreciation	271,323	265,674
Share based payments	1,918,928	-
<i>Changes in assets and liabilities:</i>		
Decrease/(increase) in trade and other receivables	218,291	(2,174,186)
Increase in inventories	(1,060,052)	(172,497)
Increase in deferred tax assets	(30,112)	(44,245)
Increase in other assets	(92)	(23,014)
Increase in trade and other payables	661,368	814,803
(Decrease)/increase in provisions	(19,554)	16,785
(Decrease)/increase in income tax payable	(1,601,539)	613,724
Net cash from operating activities	(1,837,846)	932,198

NOTE 18 – INTERESTS IN SUBSIDIARIES

Name of subsidiary	Place of incorporation and operation	Proportion of ownership interest and voting power held by the group	
		2018	2017
CoStar Pharma Laboratory Pty Ltd	Australia	100%	100%
Star Combo Australia Pty Ltd	Australia	100%	100%

NOTE 19 – RELATED PARTY TRANSACTIONS

Key management personnel

Any person having authority or responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group are considered as key management personnel.

Disclosures relating to key management personnel are set out in the Directors' report pages 11 to 15.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 19 – RELATED PARTY TRANSACTIONS (CONTINUED)

Controlled entities

Detailed of the percentage of ordinary shares held in controlled entities is disclosed in Note 18. All inter-company loans and balances are eliminated on consolidation. These loans are all interest free, with no set repayment terms.

Transactions with other related parties

Issue of shares on acquisition of subsidiaries

On 25 January 2018, Star Combo Pharma Ltd acquired 100% of the ordinary share capital of Star Combo Australia Pty Ltd from the existing shareholders. The purchase price of \$19,275,510 was paid to the sellers in via an issue of 38,551,020 ordinary shares. 38,165,510 of the shares were issued to Mr Jinxing (Star) Zhang, who is also a director of Star Combo Pharma Ltd.

On 1 February 2018, Star Combo Pharma Ltd also acquired 100% of the ordinary share capital of CoStar Pharma Pty Ltd from the existing shareholders. The purchase price of \$11,224,490 was paid to the sellers via an issue of 22,448,980 ordinary shares. 11,448,980 of the shares were issued to Ms Su Zhang, who is also a director of Star Combo Pharma Ltd. The remaining 11,000,000 were issued to Lepu Medical (Europe) Cooperatief U.A. who are a related party by virtue of their significant shareholding in Star Combo Pharma Ltd.

Related party loans

During the year ending 30 June 2017, a shareholder loan was advanced to Jinxing (Star) Zhang of \$315,892 by Star Combo Australia Pty Ltd, the balance outstanding as at 30 June 2017 was \$823,198. Interest of \$78,443 was charged in respect of the loan during the 2018 financial year (2017: \$Nil). During the financial year ending 30 June 2018, the shareholder loan was repaid via the payment of a dividend of \$891,000 to Mr Zhang. Mr Zhang further advanced \$146,192 to Star Combo Australia Pty Ltd (2017: \$Nil). As at 30 June 2018, Star Combo Australia Pty Ltd owed Mr Zhang \$135,551.

No other loans were made to key management personnel, including their personally related entities, during the financial year ended 30 June 2018 or 30 June 2017.

Operating lease

During the financial year, \$187,893 (2017: \$187,726) was paid to Antoine International Pty Ltd in respect of an operating lease for the Star Combo premises. Antoine International Pty Ltd is a related party by virtue of Jinxing (Star) Zhang being a common director.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 20 – PARENT COMPANY INFORMATION

The following information has been extracted from the books and records of the financial information of the parent entity, being Star Combo Pharma Ltd, set out below and has been prepared in accordance with Australian Accounting Standards.

	2018 \$	2017 \$
Financial Position		
Assets		
Current assets	5,232,139	1
Non-current assets	30,766,196	-
Total assets	35,998,335	1
Liabilities		
Current liabilities	134,001	-
Non-current liabilities	-	-
Total liabilities	134,001	-
Net assets	35,864,334	1
Equity		
Issues capital	37,325,236	1
Share based payment reserve	1,856,279	-
Retained earnings	(3,317,181)	-
Total equity	35,864,334	1
Financial Performance		
Loss for the year	(3,317,181)	-
Total comprehensive income	(3,317,181)	-

a) Explanation of loss for the financial year

During the financial year ended 30 June 2018, costs of \$1,918,929 were incurred in respect of share options issued, along with \$761,720 incurred in respect of IPO costs which are expensed.

b) Guarantees entered into by the parent entity

No guarantees have been entered into by the parent entity during 2018 or 2017.

c) Commitments and contingent liabilities of the parent entity

The parent entity did not have any commitments or contingent liabilities as at 30 June 2018 or 30 June 2017.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 21 – OPERATING SEGMENTS

During the 2018 financial year, the Group operated in one operating segment being the development, manufacture, marketing and sales of natural health supplements and skin care products. The Group has sold to the Australian market only during the financial year.

Management has determined the reporting segment based on the reports reviewed by the Board of Directors that are used to make strategic decisions.

Accounting policy

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's management to make decisions about resources to be allocated to the segment and assess its performance.

NOTE 22 – AUDITORS REMUNERATION

Remuneration of the auditor for:

Audit and review

Other services – IPO related services

Consolidated	
2018	2017
\$	\$
117,500	35,000
147,054	-
264,554	35,000

NOTE 23 – COMMITMENTS AND CONTINGENCIES

Commitments

Marketing Support

Star Combo Australia Pty Ltd has entered into a Marketing Support Deed ('the Deed') in relation to the acquisition of the brand name for an initial term of three years. Under the Deed, the following expenditures must be paid or incurred dependent on future events:

	Sales support	ATL marketing	Other	Total
	\$	\$	\$	\$
Within one year	500,000	2,500,000	80,000	3,080,000
One to five years	500,000	-	80,000	580,000
	1,000,000	2,500,000	160,000	3,660,000

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 23 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Commitments (continued)

Operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases for office premises and office equipment are payable as follows:

	Consolidated	
	2018	2017
	\$	\$
Within one year	268,710	33,148
Less than one year but not later than five years	1,430,601	-
Later than five years	1,145,501	-
	2,844,812	33,148

Contingencies

There are no contingent liabilities or assets that require disclosure in the financial statements at 30 June 2018 (2017: None).

NOTE 24 – EVENTS AFTER THE BALANCE SHEET DATE

Ausway Group Acquisition

On 8 August 2018, Star Combo Pharma Group (Star Combo) and Ausway Group announced that a Heads of Agreement had been signed, under which it is proposed that Star Combo Group will acquire 100% of the Ausway Group of companies (Ausway), being Ausway Pharmaceutical Pty Ltd, Austoyou Group Pty Limited and Koala Mall Pty Limited.

Ausway specialise in the supply and distribution of vitamins and dietary supplements both in Australia and overseas with a particular emphasis on its e-commerce platform which sells directly into China. Ausway currently generates revenues in excess of \$18 million with positive earnings.

The business of Ausway is complementary to Star Combo and is a significant customer of Star Combo's contract manufacturing division (6th largest client). The business has a total of 10 employees, and is located in Sydney. Ausway has been in business for approximately 10 years.

The total consideration is agreed at 10 times the June 2018 annual after tax profit.

Richlink Exercise of Options

On 9 August 2018, Richlink Limited exercised 3,960,171 options at an exercise price of \$0.45 per share. This increased the total shareholding to 6,360,170 shares, being 8.00% of the issued share capital of Star Combo Pharma Ltd, meaning they are now considered to be a significant shareholder.

Other than the matters disclosed above, no matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 25 – CAPITAL AND FINANCIAL RISK MANAGEMENT

Capital management

The Group's objectives when managing share capital, reserves and retained earnings, which represents the Group's capital, are to:

- Maintain a sustainable debt to equity ratio;
- Generating long-term shareholder value; and
- Ensure that the group can fund its future operations as a going concern.

The Group's potential debt and capital include ordinary share capital and financial liabilities, supported by financial assets.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

Financial risk management

The Group's activities expose it to a variety of financial risks; credit risk, liquidity risk and market risk. The Group uses different methods to measure different types of risk to which it is exposed. There have been no substantive changes in the types of risk the Group is exposed to, how these risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous period.

Credit risk

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counter parties. The class of assets described as "Trade and other receivables" is considered to be the main source of credit risk related to the Group.

The Group has no formal policy with regards to past due trade receivables and each receivable is evaluated individually by management. Jinxing (Star) Zhang is considered to be central to the Group's credit risk assessment and management procedures given his strong relationships with the customers of the Star Combo Group.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, the Group aims to maintain flexibility in funding by keeping committed credit lines available. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

Market risk

(i) Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments. The Group is primarily exposed to this risk on cash and cash equivalents.

(ii) Foreign exchange risk

Foreign exchange risk arises when the future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. Foreign currency risk is managed by retaining majority of its cash and payables in Australian currency. Products sales are received in USD and RMB with short term credit terms.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 26 – FINANCIAL INSTRUMENTS

The Group's financial instruments consist mainly of deposits with banks, short-term investments, account receivable and payable, bills, leases.

The totals for each category of financial instruments, measured in accordance with AASB 139: *Financial Instruments: Recognition and Measurement* as detailed in the accounting policies to these financial statements, are as follows:

	Note	Consolidated	
		2018 \$	2017 \$
Financial assets			
Cash and cash equivalents	5	8,941,796	6,205,913
Loans and receivables	6	2,754,015	4,100,166
Total financial assets		11,695,811	10,306,079
Financial Liabilities			
Financial liabilities at amortised cost:			
Trade and other payables	10	2,715,809	1,918,890
Borrowings	11	-	1,620,456
Total financial liabilities		2,715,809	3,539,346

The directors consider the fair value of financial assets and liabilities to approximate their carrying amounts.

STAR COMBO PHARMA LTD (ABN: 38 615 728 375) AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION

In the Directors' opinion:

- the attached financial statements and notes comply with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the financial period ended on that date;
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors



Richard Allely
Chairman
31 August 2018
Sydney

INDEPENDENT AUDITOR'S REPORT

To the members of Star Combo Pharma Ltd

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Star Combo Pharma Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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 report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Group reorganisation and capital raising

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
As disclosed as Note 1(B) to the financial statements, during January and February 2018, the shareholders of the Company, the Directors and management undertook a group reorganisation process, through which Star Combo Pharma Ltd became the legal parent of Star Combo Australia Pty Ltd and CoStar Pharma Laboratory Pty Ltd. Subsequent to the group reorganisation process, the company undertook a capital raising through an Initial Public Offering. Given the complex accounting treatment of the group reorganisation and capital raising, we have determined this to be a key audit matter.	Our audit procedures in respect of this area included, but were not limited to the following: • Confirming the acquisition of the subsidiary companies from existing shareholders to supporting documentation; • Confirming that the subsidiary companies acquired were under common control prior to the acquisition; • Reviewing the accounting treatment of the group reorganisation in accordance with available accounting guidance; and • Assessing the adequacy of the related disclosures in Note 1(B) to the financial statements. • Reviewing and agreeing the accounting treatment for costs associated with the group reorganisation and capital raising.

Share based payments

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
As disclosed in Note 14 to the financial statements, a number of share options were issued to employees and non-employees during the financial year. Given the judgements involved in determining the valuation of the share options issued at grant date, and the significant auditor attention required, we have determined that this is a key audit matter.	Our audit procedures in respect of this area included, but were not limited to the following: • Confirming the value of share-based payments granted during the year to the valuation models and assessing the inputs; • Recalculating the share-based payment expense in line with the terms and conditions of the share-based payment agreements; • Assessing the adequacy of the Company's disclosures in respect of the treatment of share-based payments in Note 14 to the financial statements.

Recoverability of trade receivables

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
As disclosed in Note 6 of the financial report, the Group holds trade receivables valued at \$2,503,745 (2017: \$2,863,927). In accordance with Australian Accounting Standards, at the end of each reporting period, management is required to assess whether there is any objective evidence that these assets are impaired. Given the judgement involved in determining whether there is any evidence of impairment of trade receivables, and the absence of formal credit terms, we have determined that the recoverability of trade and other receivables is a key audit matter.	Our procedures included, but were not limited to: • Reviewing the reasonableness of management's assessment that there are no indicators of impairment; • Holding discussions with management as to the credit risk of each counterparty, and considering whether this information is consistent with management's conclusion; • Considering whether any other data exists which would constitute indicators of impairment; and • Assessing the adequacy of the related disclosures in Note 6 of the financial report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report 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 report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report 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 the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.



Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 15 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Star Combo Pharma Limited, for the year 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO East Coast Partnership

The image shows two handwritten signatures. The top signature is in blue ink and appears to be 'BDO'. The bottom signature is in black ink and is a cursive signature, likely of Grant Saxon.

Grant Saxon
Partner

Sydney, 31 August 2018

STAR COMBO PHARMA LTD (ABN: 39 615 728 375) AND CONTROLLED ENTITIES

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The shareholder information set out below was applicable as at 9 August 2018:

Issued Capital

As at 9 August 2018, the company had 79,455,486 ordinary fully paid shares (including 50,000,000 escrowed shares) on issue. Further details of the escrowed shares are provided below.

A. Equity security holders

The names of the twenty largest holders of quoted equity securities (excluding escrowed shares) are listed below:

Rank	Name	No. of shares	%
1	LEPU MEDICAL (EUROPE) COOPERATIEF U.A.	11,000,000	37.34
2	AET CT PTY LIMITED <RICHLINK HIGH-TECH INVEST>	6,360,170	21.59
3	EUREKA TECHNOLOGY INNOVATION & INVESTMENT PTY LTD	1,003,000	3.41
4	MS LISHA HUANG	360,000	1.22
5	MR XING KANG JIN	349,000	1.18
6	GUAN MING PTY LTD <GUAN MING SUPER FUNDS A/C>	348,000	1.18
7	MR STEVE HOU	285,928	0.97
8	OZCN GROUP PTY LTD <RZ FAMILY A/C>	206,000	0.70
9	MR THANH HIEP LU	174,000	0.59
10	ALAN ESTATE PTY LTD	169,000	0.57
11	ALAN REALTY PTY LTD	167,000	0.57
12	MS JIE ZHANG	149,553	0.51
13	TOP PACK AUSTRALIA PTY LTD	136,000	0.46
14	MR WENGANG XING	120,000	0.41
15	MS MING PAN	113,000	0.38
16	MR PETER ZI HOU	110,026	0.37
17	MR ANJIN LI	110,000	0.37
18	MR SHENG ZHUANG	106,676	0.36
19	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	105,383	0.36
20	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	100,000	0.34
Total		21,472,736	72.88

The names of the shareholders of quoted equity shares held in escrow are listed below:

Rank	Name	No. of shares	%
1	JINXING (STAR) ZHANG	38,165,510	76.33
2	MISS SU ZHANG	11,448,980	22.90
3	MR HUI LIN LU	385,510	0.77
Total		50,000,000	100.00

STAR COMBO PHARMA LTD (ABN: 39 615 728 375) AND CONTROLLED ENTITIES

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

B. Distribution of equity securities

Analysis of numbers of equity security holders for S66 fully paid ordinary shares (including the escrowed shares) by size of holding:

Range	Securities	%	No. of holders	%
100,001 and Over	71,372,736	89.83	22	2.47
10,001 to 100,000	5,553,791	6.99	175	19.64
5,001 to 10,000	1,275,613	1.61	164	18.41
1,001 to 5,000	1,136,389	1.43	340	38.16
1 to 1,000	116,957	0.14	190	21.32
Total	79,455,486	100.00	891	100.00

The number of security investors holding less than a marketable parcel of 527 securities (\$.950 on 09/08/2018) is 83 and they hold 24,151 securities.

C. Substantial holders

Substantial holders in the company are set out below:

Substantial holders		
	Number of ordinary shares held	% of total shares issued
JINXING (STAR) ZHANG (<i>escrowed</i>)	38,165,510	48.03
MISS SU ZHANG (<i>escrowed</i>)	11,448,980	14.41
LEPU MEDICAL (EUROPE) COOPERATIEF U.A.	11,000,000	13.84
AET CT PTY LIMITED <RICHLINK HIGH-TECH INVEST>	6,360,170	8.00
Total	66,974,660	84.28

D. Voting Rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each shares shall have one vote.

There are no other classes of equity securities.

E. Unquoted equity securities

	No. on issue	No. of holders
Unquoted options to take up ordinary shares	3,770,000	76.33

F. Company Secretary:

DFK Richardhill Pty Ltd

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

G. Share Registry

Link Market Services

Level 12, 680 George Street

Sydney NSW 2000

Ph: +61 1300 554 474

H. Principal registered office in Australia

Star Combo Pharma Ltd

171-177 Woodpark Road,

Smithfield

NSW 2164



Star Combo Pharma Ltd
– Australia –