

**STAR****STAR PHARMACEUTICAL LIMITED**

Registration No. 200500429W

UNAUDITED FIRST QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2009**PART 1 – INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS****1(a) An income statement (for the Group) together with a comparative statement for the corresponding period of the immediately preceding financial year.**

	Group		
	RMB'000		(%)
	3 months ended 31 March 2009	3 months ended 31 March 2008	Increase/ (decrease) +/(–)
	(a)	(b)	(a) – (b)
Revenue	29,632	26,310	13
Cost of sales	(17,585)	(13,731)	28
Gross Profit	12,047	12,579	(4)
Other operating income	400	415	(4)
Selling and distribution expenses	(2,830)	(3,855)	(27)
Administrative expenses	(5,273)	(6,865)	(23)
Other operating expenses	(183)	(40)	358
Finance income	239	1,470	(84)
Finance costs	(3,619)	(2,187)	65
Profit before tax	781	1,517	(49)
Income tax	(55)	(572)	(90)
Profit after tax	726	945	(23)
Attributable to:			
Equity holders of the Company	1,521	1,716	(11)
Minority interest	(795)	(771)	3
Profit for the period	726	945	(23)
Earnings per share (cents)			
- Basic	0.65	0.73	
- Diluted	0.65	0.73	

Notes to the Income Statement:

	Group	
	RMB'000	
	3 months ended 31 March 2009	3 months ended 31 March 2008
Profit before tax is arrived at after charging / (crediting) :		
Interest income	239	1,470
Interest on borrowings	327	7
Foreign exchange (gain)/loss	2,315	283
Dividend on RCPS	977	1,897
Depreciation	1,587	1,618
Amortization expenses	1,057	621
Amortization of RCPS transaction cost	185	380
Loss on disposal of fixed and intangible assets	20	-

1(b)(i) Statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

	Note	Group		Company	
		31 Mar-09	31 Dec-08	31 Mar-09	31 Dec-08
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment		47,461	47,930	39	43
Investments in subsidiaries		-	-	76,607	76,607
Lease prepayments		1,205	1,219	-	-
Intangible assets	(a)	228,790	229,806	-	-
		277,456	278,955	76,646	76,650
Current assets					
Inventories		23,881	28,296	-	-
Trade and bills receivables		8,068	4,733	-	-
Other receivables, prepayments and deposits		83,335	34,251	23,153	23,146
Due from subsidiaries (non-trade)		-	-	6,896	127,507
Due from related parties		-	130	-	-
Cash and cash equivalents		13,639	164,266	7,089	33,774
		128,923	231,676	37,138	184,427
Total assets		406,379	510,631	113,784	261,077
Equity					
Share capital		144,975	144,975	144,975	144,975
Reserves		17,668	17,668	-	-
Accumulated profits/(losses)		108,997	107,476	(32,703)	(28,455)
		271,640	270,119	112,272	116,520
Minority interests		31,088	31,883	-	-

Total equity		302,728	302,002	112,272	116,520
Non-current liabilities					
Redeemable Convertible Cumulative Preference Shares		-	-	-	-
Deferred tax liabilities		15,299	15,314	-	-
		15,299	15,314	-	-
Current liabilities					
Trade and other payables		34,602	49,840	1,276	2,465
Secured bank loan		50,000	-	-	-
Due to related parties (non-trade)		1,702	2,011	236	2,607
Redeemable Convertible Cumulative Preference Shares (current portion)	(b)&(c)	-	139,485	-	139,485
Current tax payable		2,048	1,979	-	-
		88,352	193,315	1,512	144,557
Total liabilities		103,651	208,629	1,512	144,557
Total equity and liabilities		406,379	510,631	113,784	261,077

Notes :

- (a) Intangible assets comprise mainly of Deferred Development Cost with carrying value of RMB4,740,000. (At 31/12/2008: RMB5,703,000) and Product Development in Progress of RMB213,959,000 (At 31/12/2008: RMB214,012,000) and Goodwill of RMB10,091,000 (At 31/12/2008: RMB10,091,000).
- (b) The Company issued and allotted 46,668,000 Redeemable Convertible Cumulative Preference Shares (“RCPS”) on 29 December 2006, at a subscription price of S\$0.60 for each RCPS to various subscribers, successfully raising net proceeds of S\$26.5 million, after the deduction of issuing expense of S\$1.5 million.
- (c) Pursuant to the formal requisitions made in August 2008 by several RCPS Holders, the Company had convened the RCPS Class Meeting in September 2008 whereby the RCPS Holders have approved, inter alia, the maturity date for the RCPS be amended and brought forward from 29 December 2011 to 19 February 2009. Payment of the preference cash dividends and cash redemption of RCPS have been made on 27 February 2009

1(b)(ii) Aggregate amount of group’s borrowings and debt securities.

Amount repayable in one year or less, or on demand

	As at 31 March 2009		As at 31 December 2008	
	Secured RMB’000	Unsecured RMB’000	Secured RMB’000	Unsecured RMB’000
Bank Loan	50,000 *	-	-	-
Redeemable Convertible Cumulative Preference Shares	-	-	-	139,485

Details of any collateral:

* The bank loan of RMB50 million as at 10 February 2009 was secured by property, plant and equipment in Hainan STAR.

1(c) A cash flow statement (for the Group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

Group	RMB'000	
	Period ended 31 March 2009	Period ended 31 March 2008
Cash flow from operating activities		
Profit before tax	781	1,517
Adjustments for:		
Amortization of deferred development costs	1,043	607
Amortization of lease prepayment	14	14
Amortization of RCPS transaction cost	185	380
Depreciation of property, plant and equipment	1,587	1,618
Loss on disposal of property, plant and equipment	20	-
Interest expense	327	7
Interest income	(239)	(1,470)
Exchange gain on RCPS	(9,621)	-
Dividend on RCPS	977	1,897
Operating (loss)/profit before working capital changes	(4,926)	4,570
Changes in working capital:		
Inventories	4,415	213
Trade and bills receivables	(3,336)	(3,158)
Other receivables and prepayments	(730)	1,441
Trade and other payables	(15,237)	2,147
Cash (used in)/generated from operations	(19,814)	5,213
Income tax paid	-	(661)
Net cash (used in)/generated from operating activities	(19,814)	4,552
Cash flows from investing activities		
Payments for product development in progress	(28)	(208)
Purchase of property, plant and equipment	(1,216)	(1,143)
Proceeds from disposal of property, plant and equipment	78	-
Deposits for potential investments	(270)	-
Deposits for Product manufacturing rights and Technical know-how	(47,954)	-
Interest received	239	1,470
Net cash (used in)/generated from investing activities	(49,151)	119
Cash flows from financing activities		
Repayment to related parties	(309)	(4,404)
Proceeds from bank loan, net	50,000	-
Payment of bank loan	-	(30,000)
Payment of RCPS dividends	(131,026)	-
Interest paid	(327)	(7)

Net cash (used in) from financing activities	(81,662)	(34,411)
Net (decrease) in cash and cash equivalents	(150,627)	(29,740)
Cash and cash equivalents at beginning of the period	164,266	199,728
Cash and cash equivalents at end of the period	13,639	169,988

1d(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) change in equity other than those arising from capitalization issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediate preceding financial year.

<u>Group</u>	Share capital	Statutory reserves	Accumulated profits	Total attributable to equity holders of the parents	Minority interest	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	144,975	15,948	115,256	276,179	31,176	307,355
Net profit for the period	-	-	1,716	1,716	(771)	945
At 31 March 2008	144,975	15,948	116,972	277,895	30,405	308,300
At 1 January 2009	144,975	17,668	107,476	270,119	31,883	302,002
Net profit for the period	-	-	1,521	1,521	(795)	726
At 31 March 2009	144,975	17,668	108,997	271,640	31,088	302,728

<u>Company</u>	Share capital	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2008	144,975	(16,190)	128,785
Net loss for the period	-	(3,138)	(3,138)
At 31 March 2008	144,975	(19,328)	125,647
At 1 January 2009	144,975	(28,455)	116,520
Net loss for the period	-	(4,248)	(4,248)
At 31 March 2009	144,975	(32,703)	112,272

1(d)(ii) Details of any changes in the Company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

On 15 February 2006, the Company launched its initial public offering ("IPO"). Total 46,825,000 ordinary shares were issued to the public. As a result of the Amendments, as at the date of our invitation, our Company has an issued and paid-up capital of S\$14,984,227, comprising 187,300,000 ordinary shares of no par value and has no authorized share capital.

As at 31 December 2006, the issued and paid-up capital of the Company was RMB 144,975,729 comprising 234,125,000 ordinary shares.

The Company issued and allotted 46,668,000 RCPS on 29 December 2006, at a subscription price of S\$0.60 for each RCPS to various subscribers, successfully raising net proceeds of S\$26.5 million. The RCPS are convertible to 46,668,000 ordinary shares at a conversion ratio of 1 RCPS to 1 Conversion Share at any time during the 5-year period from the issue date to the maturity date (i.e. 28 December 2011), subject to adjustment in the event of, amongst other things, the Company not attaining the target net profit before tax of RMB120 million for financial year 2009. A cumulative preference dividend of 5% will be payable on an annual basis to the RCPS holders.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

Total number of issued shares excluding treasury shares: 234,125,000 (31 December 2008: 234,125,000)

1(d)(iv) A statement showing all sales, transfer, disposal, cancellation and/or use of the treasury shares at the end of the current financial period reported on.

Not applicable.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

The figures have not been audited nor reviewed by the Group's auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

The accounting policies and methods of computation applied in the financial statements for the current financial year are consistent with those of the audited financial statements for the year ended 31 December 2008.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed as well as the reasons for, and the effect of, the change.

The adoption of certain new/revised accounting standards effected on 1 January 2009 have no significant impact on the Group's result of operations.

6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	Group	
	3 months ended 31 March 2009	3 months ended 31 March 2008
Net profit for the period (RMB'000)	1,521	1,716
No. of ordinary shares used in calculation of basic earning per share	234,125,000	234,125,000
Earnings per ordinary share of the group, based on net profit attributable to the shareholders of the Company (in RMB cents):		
(a) Based on weighted average number of ordinary shares on issue: and (in RMB cents)	0.65	0.73
(b) On a fully diluted basis (in RMB cents)	0.65	0.73

- For the financial period ended 31 March 2009, the diluted earnings per share was the same as the basic earnings per share as the effects of the RCPS is anti-dilutive.

7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the:-

- (a) current financial year reported on ; and
 (b) immediate preceding financial year.

	Group		Company	
	3 months ended 31 March 2009	Year ended 31 December 2008	3 months ended 31 March 2009	Year ended 31 December 2008
Net asset value per ordinary share capital at the end of the period (in RMB cents)	123.9	129.0	48.0	49.8

8. A review of the performance for the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the followings :-

- (a) any significant factors that affected the turnover, costs, and earnings of the group for current financial period reported on, including (where applicable) seasonal or cyclical factors; and
 (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

Overview

The Group posted revenue growth of 13% to RMB29.6 million in 1Q09 on strong domestic demand in the PRC. This enabled the Group to deliver net profit attributable to equity holders of the Company of RMB1.5 million against the backdrop of a challenging business climate during the quarter.

Revenue

Group revenue rose 13% to RMB29.6 million in 1Q09 as PRC domestic demand for the Group's antibiotics and other specialized drugs grew.

	3 months ended 31 March 2009	3 months ended 31 March 2008	Change	
	RMB'000	RMB'000	%	RMB'000
Antibiotics	21,558	17,655	22	3,903
Cardiovascular drugs and cerebrovascular drugs	2,388	3,173	-25	-785
Other specialized drugs	5,686	5,344	6	342
TCM R&D	-	138	n.m.	-138
Total	29,632	26,310	13	3,322

Sales of the Group's mainstay, antibiotics, jumped 22% to RMB21.6 million in 1Q09 on strong domestic demand for Cefotaxime Sodium for Injection, Cefminox Sodium for Injection and Aztreonam for Injection lifted by flu epidemic in the PRC. The higher sales volume more than offset the lower average antibiotics selling price led by government price control on antibiotics. Antibiotics remained the largest revenue contributor, accounting for 73% of Group revenue in 1Q09.

Sales of cardiovascular drugs and cerebrovascular drugs fell 25% to RMB2.4 million in 1Q09 on weaker demand for major products Puerarin Injection and Aceglutamide for Injection.

Other specialized drugs sales rose 6% to RMB5.7 million in 1Q09 on higher sales of major product Bocobal Mecobalamin Injection, as well as positive contributions from new products. Sanqi Zhixue Jujuepian, Cobamamide for Injection and Omeprazole Sodium for Injection launched in 2008.

No TCM R&D revenue - upfront fee and share of future profit from preliminary TCM R&D results – was recognized by the Group's nascent TCM segment in 1Q09.

Profitability

Gross profit inched down 4% from RMB12.6 million in 1Q08 to RMB12.0 million in 1Q09 due to higher raw material prices partially offset by higher sales.

The Group was successful in its cost management program. Selling and distribution expenses dropped 27% from RMB3.9 million in 1Q08 to RMB2.8 million in 1Q09 while administrative expenses fell 23% from RMB6.9 million in 1Q08 to RMB5.3 million in 1Q09.

Financial income decreased from RMB1.5 million in 1Q08 to RMB0.2 million in 1Q09 as the Group's fixed deposit that earned RMB1.5 million in interest income in 1Q08 had been used to redeem the RCPS (Redeemable Cumulative Convertible Preference Share) and pay deposits to acquire certain product manufacturing rights and technical know-how in 1Q09.

Financial expenses rose from RMB2.2 million in 1Q08 to RMB3.6 million in 1Q09 mainly due to exchange losses realized on foreign currency loan repayment and RCPS redemption in 1Q09.

Overall, Group net profit attributable to equity holders dipped 11% from RMB1.7 million in 1Q08 to RMB1.5 million in 1Q09.

Financial Position

(31 March 2009 vs. 31 December 2008)

Non-current assets fell from RMB279.0 million to RMB277.5 million. Property, plant and equipment decreased from RMB47.9 million to RMB47.5 million due to depreciation. Intangibles assets also dropped from RMB229.8 million to RMB228.8 million as a result of amortization of the intangible assets.

Current assets declined from RMB231.7 million to RMB128.9 million. Inventories fell from RMB28.3 million to RMB23.9 million as Group cleared stocks to meet higher demand and on better inventory control. Trade & bills receivables increased from RMB4.7 million to RMB8.1 million in line with higher sales. Other receivables, prepayments and deposits increased from RMB34.3 million to RMB83.3 million as the Group put down RMB47.9 million in initial deposits in 1Q09 for the acquisitions of certain product manufacturing rights and technical know-how. Due to this and the utilization of funds to fully redeem the RCPS in 1Q09, cash and cash equivalents fell from RMB164.3 million to RMB13.6 million.

Non-current liabilities remained at RMB15.3 million level.

Current liabilities fell from RMB193.3 million to RMB88.4 million. Trade and other payables decreased from RMB49.8 million to RMB34.6 million due to repayments. The Group procured RMB50 million in bank loan during the quarter to partially finance the redemption of RCPS. Amount due to related parties also declined from RMB2.0 million to RMB1.7 million due to repayments. RCPS was fully redeemed in 1Q09 bringing the RCPS liabilities down to zero.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Not applicable.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

Prospects

Even as the Group faces up to the uncertain economic outlook ahead, it will remain focused on its long-term growth strategies.

The Group will continue to strengthen its business development efforts by further expanding domestic sales and capture opportunities to grow both internally and externally. Strong product pipeline will be maintained with ongoing product R&D efforts. We expect to be a beneficiary of the Chinese government's industry-stimulating macroeconomic policies and the ongoing health care reform with extended health insurance coverage of the rural population which will drive the growth of the Chinese pharmaceutical market.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

Ordinary Shares:

No.

RCPS:

No

(b) Corresponding Period of the immediately preceding financial year

Any dividend declared for the corresponding period of the immediately preceding financial year?

Ordinary Shares:

NIL

RCPS:

NIL

(c) Date payable

Ordinary Shares:

Not applicable.

RCPS:

Not applicable.

(d) Book Closure Date

Ordinary Shares:

Not applicable.

RCPS:

Not applicable.

12. If no dividend has been declared/recommend, a statement to that effect.

No dividend has been declared.

13. Negative Assurance Confirmation pursuant to SGX Listing Rule 705(4)

To the best of our knowledge and belief, nothing has come to the attention of the Directors of the Company which may render the First Quarter Results of the Group for the financial period ended 31 March 2009 to be materially false or misleading in any material respect.

By Order of the Board

**Wong Kai
Chairman
13 May 2009**