



STAR

STAR PHARMACEUTICAL LIMITED

Registration No. 200500429W

UNAUDITED HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 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			Group		
	RMB'000		(%)	RMB'000		(%)
	3 months ended 30 June 2009	3 months ended 30 June 2008	Increase/ (decrease) +/(–)	6 months ended 30 June 2009	6 months ended 30 June 2008	Increase/ (decrease) +/(–)
	(a)	(b)	(a) – (b)	(a)	(b)	(a) – (b)
Revenue	34,557	30,784	12	64,189	57,094	12
Cost of sales	(21,334)	(14,238)	50	(38,919)	(27,969)	39
Gross Profit	13,223	16,546	(20)	25,270	29,125	(13)
Other income	446	174	156	846	589	44
Selling and distribution expenses	(4,049)	(3,659)	11	(6,879)	(7,514)	(8)
Administrative expenses	(6,057)	(7,592)	(20)	(11,330)	(14,457)	(22)
Other expenses	(246)	(708)	(65)	(429)	(1,031)	(58)
(Loss)/Profit from operations	3,317	4,761	(30)	7,478	6,712	11
Financial income	19	581	(97)	258	2,051	(87)
Financial expenses	(694)	(1,412)	(51)	(4,313)	(3,316)	30
(Loss)/Profit before taxation	2,642	3,930	(33)	3,423	5,447	(37)
Taxation	(2,033)	(481)	323	(2,088)	(1,053)	98
(Loss)/Profit for the period	609	3,449	(82)	1,335	4,394	(70)
Attributable to:						
Equity holders of the parent	552	2,346	(76)	2,073	4,062	(49)
Minority interest	57	1,103	(95)	(738)	332	n.m
(Loss)/Profit for the period	609	3,449	(82)	1,335	4,394	(70)
Earnings per share (RMB cents)						
- Basic (weighted average)	0.24	1.00		0.89	1.73	
- Fully diluted	0.24	1.00		0.89	1.73	

n.m – not meaningful.

Consolidation statement of Comprehensive income for the period

	Group			Group		
	RMB'000		(%)	RMB'000		(%)
	3 months ended 30 June 2009	3 months ended 30 June 2008	Increase/ (decrease) +/(–)	6 months ended 30 June 2009	6 months ended 30 June 2008	Increase/ (decrease) +/(–)
Profit for the period	609	3,449	(82)	1,335	4,394	(70)
Other comprehensive income:						
Exchange difference on consolidation	-	-		-	-	
Other comprehensive income for the period, net of tax	609	3,449	(82)	1,335	4,394	(70)
Total comprehensive income attributable to :						
Equity holders of the parent, net of tax	552	2,346	(76)	2,073	4,062	(49)
Minority interest, net of tax	57	1,103	(95)	(738)	332	n.m
	609	3,449	(82)	1,335	4,394	(70)

Notes to Income Statement:

	Group		Group	
	RMB'000		RMB'000	
	3 months ended 30 June 2009	3 months ended 30 June 2008	6 months ended 30 June 2009	6 months ended 30 June 2008
Profit before tax is arrived at after charging / (crediting) :				
Interest income	19	581	258	2,051
Interest on borrowings	879	5	1,206	12
Foreign exchange (gain)/loss	(185)	474	2,130	757
Dividend on RCPS	-	1,407	977	3,304
Depreciation	1,461	1,365	3,048	2,983
Amortization expenses	1,095	621	2,152	1,242
Amortization of RCPS transaction cost	-	379	185	759
Loss on disposal of fixed assets and intangible assets	1,596	1,120	1,616	1,120

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	
		30 Jun 2009	31 Dec 2008	30 Jun 2009	31 Dec 2008
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment		47,038	47,930	45	43
Investment in subsidiaries		-	-	76,607	76,607
Lease prepayments		1,191	1,219	-	-
Intangible assets	(a)	227,708	229,806	-	-
		275,937	278,955	76,652	76,650
Current assets					
Inventories		25,057	28,296	-	-
Trade and bills receivables		8,765	4,733	-	-
Other receivables, prepayments and deposits		59,291	34,251	30,085	23,146
Due from subsidiary (non-trade)		-	-	-	127,507
Due from related corporations		-	130	-	-
Cash and cash equivalents		47,406	164,266	5,350	33,774
		140,519	231,676	35,435	184,427
Total assets		416,456	510,631	112,087	261,077
Equity					
Share capital		144,975	144,975	144,975	144,975
Reserves		17,668	17,668	-	-
Accumulated profits/(losses)		109,549	107,476	(33,576)	(28,455)
		272,192	270,119	111,399	116,520
Minority interests		31,145	31,883	-	-
Total equity		303,337	302,002	111,399	116,520
Non-current liabilities					
Deferred tax liabilities		15,284	15,314	-	-
		15,284	15,314	-	-
Current liabilities					
Trade and other payables		44,524	49,840	452	2,465
Secured bank loan		50,000	-	-	-
Due to related parties (non-trade)		1,772	2,011	236	2,607
Redeemable Convertible Cumulative Preference Shares (current portion)	(b) & (c)	-	139,485	-	139,485
Current tax payable		1,539	1,979	-	-
		97,835	193,315	688	144,557
Total liabilities		113,119	208,629	688	144,557
Total equity and liabilities		416,456	510,631	112,087	261,077

Notes:

- (a) Intangible assets comprise mainly of Deferred Development Cost with carrying value of RMB4,059,000. (At 31/12/2008: RMB5,703,000) and Product Development in Progress of RMB213,558,000 (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 30 June 2009		As at 31 December 2008	
	Secured	Unsecured	Secured	Unsecured
	RMB’000	RMB’000	RMB’000	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) Consolidated Statement of Cash flows (for the Group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

Consolidated cash flow statement for the period ended 30 June

<u>Group</u>	RMB'000	
	6 months ended 30 June 2009	6 months ended 30 June 2008
Cash flow from operating activities		
Profit before taxation	3,423	5,447
Adjustments for:		
Amortization of deferred development costs	2,123	1,214
Amortization of lease prepayment	29	28
Amortisation of RCPS transaction cost	185	759
Depreciation of property, plant and equipment	3,048	2,983
Loss on disposal of property, plant and equipment	150	1,120
Product development in progress written off	1,466	-
Interest expense	1,206	12
Interest income	(258)	(2,051)
Exchange gain on RCPS	(9,621)	-
Dividend on RCPS	977	3,304
Operating profit before working capital changes	2,728	12,816
Changes in working capital:		
Inventories	3,240	(6,724)
Trade and bills receivables	(4,033)	(2,666)
Other receivables, prepayments and deposits	(7,508)	(1,497)
Trade and other payables	(5,346)	6,316
Cash (used in)/generated from operations	(10,919)	8,245
Income tax paid	(2,526)	(1,567)
Net cash (used in)/generated from operating activities	(13,445)	6,678
Cash flows from investing activities		
Payments for product development in progress	(1,492)	(465)
Purchase of property, plant and equipment	(2,434)	(1,546)
Proceeds from disposal of property, plant and equipment	128	-
Repayment deposit from potential investment	5,000	-
Deposit for patents	(22,404)	-
Interest received	258	2,051
Net cash (used in)/generated from investing activities	(20,944)	40
Cash flows from financing activities		
Proceeds from bank loan, net	50,000	-
Repayment to related parties	(239)	(4,821)

Repayment of bank loan	-	(30,000)
Payment of RCPS dividends	(131,026)	(6,857)
Interest paid	(1,206)	(12)
Net cash (used in) from financing activities	(82,471)	(41,690)
Net (decrease) in cash and cash equivalents	(116,860)	(34,972)
Cash and cash equivalents at beginning of the period	164,266	199,728
Cash and cash equivalents at end of the period	47,406	164,756

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.

Consolidated Statement of Changes in Shareholders' Equity for the period ended 30 June

<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
Total comprehensive income for the period	-	-	4,062	4,062	332	4,394
At 30 June 2008	144,975	15,948	119,318	280,241	31,508	311,749
At 1 January 2009	144,975	17,668	107,476	270,119	31,883	302,002
Total comprehensive income for the period	-	-	2,073	2,073	(738)	1,335
At 30 June 2009	144,975	17,668	109,549	272,192	31,145	303,337

Company	Share capital	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2008	144,975	(16,190)	128,785
Total comprehensive loss for the period	-	(6,726)	(6,726)
At 30 June 2008	144,975	(22,916)	122,059
At 1 January 2009	144,975	(28,455)	116,520
Total comprehensive loss for the period	-	(5,121)	(5,121)
At 30 June 2009	144,975	(33,576)	111,399

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.

The Company convened a RCPS Class Meeting in September 2008 whereby the RCPS Holders sought approval for the maturity date for the RCPS to be amended and brought forward from 29 December 2011 to 27 February 2009. Accordingly, the outstanding balance as at 31 December 2008 was reclassified as a current liability.

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		Group	
	3 months ended 30 June 2009	3 months ended 30 June 2008	6 months ended 30 June 2009	6 months ended 30 June 2008
Net Profit for the period (RMB'000)	552	2,346	2,073	4,062
No. of ordinary shares used in calculation of basic earning per share	234,125,000	234,125,000	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 share on issue: and (in RMB cents)	0.24	1.00	0.89	1.73
(b) On a fully diluted basis (in RMB cents)	0.24	1.00	0.89	1.73

- 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 the total number of issued share excluding treasury shares of the issuer at the end of the:-

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

	Group		Company	
	6 months ended 30 June 2009	Year ended 31 December 2008	6 months ended 30 June 2009	Year ended 31 December 2008
Net asset value per ordinary share capital at the end of the period (in RMB cents)	129.6	129.0	47.6	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

Group revenue rose 12% to RMB34.6 million in 2Q09 underpinned by strong domestic demand in the PRC. Despite the challenging economic headwinds during the quarter, the Group posted net profit attributable to equity holders of the Company of RMB0.6 million (2Q08: RMB2.3 million).

For the year to date, net profit attributable to equity holders of the Company amounted to RMB2.1 million in 1H09 (1H08: RMB4.1 million) on revenue of RMB64.2 million (1H08: RMB57.1 million).

Revenue

Group revenue increased 12% to RMB34.6 million in 2Q09 as PRC domestic demand for the Group's antibiotics and other specialized drugs grew.

	3 months ended	3 months ended	Change		6 months ended	6 months ended	Change	
	30 June 2009	30 June 2008	%	RMB'000	30 June 2009	30 June 2008	%	RMB'000
	RMB'000	RMB'000			RMB'000	RMB'000		
Antibiotics	24,397	17,441	40	6,956	45,955	35,096	31	10,859
Cardiovascular drugs and cerebrovascular drugs	1,616	1,946	(17)	(330)	4,003	5,119	(22)	(1,116)
Other specialized drugs	7,823	6,512	20	1,311	13,510	11,856	14	1,654
TCM R&D	721	4,885	(85)	(4,164)	721	5,023	(86)	(4,302)
Total	34,557	30,784	12	3,773	64,189	57,094	12	7,095

Sales from the Group's key product segment, antibiotics, jumped 40% to RMB24.4 million in 2Q09 on strong domestic demand for Cefotaxime Sodium for Injection, Cefminox Sodium for Injection and Aztreonam for Injection amidst the 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 71% of Group revenue in 2Q09.

Cardiovascular drugs and cerebrovascular drugs drew sales of RMB1.6 million in 2Q09, which was down 17% from the RMB1.9 million in 2Q08. This was led by weaker demand for major products Puerarin Injection and Cerebroprotein Hydrolysate Injection.

Other specialized drugs sales jumped 20% to RMB7.8 million in 2Q09 on strong demand for Amoxicillin and Dicloxacillin Sodium Tablets, and Bocobal Mecobalamin Injection

TCM R&D revenue - upfront fee and share of future profit from preliminary TCM R&D results – fell to RMB0.7 million in 2Q09 from RMB4.9 million in 2Q08.

Profitability

Gross profit declined 20% from RMB16.5 million in 2Q08 to RMB13.2 million in 2Q09 due to the unstable sales revenue from TCM R&D and higher raw material prices in partially offset by sales.

Other income rose 156% from RMB174k in 2Q08 to RMB446k in 2Q09. The increase included government hi-tech grant and distributors' penalty income from Market Distribution Price Control scheme.

Selling and distribution expenses increased 11% from RMB3.7 million in 2Q08 to RMB4.0 million in 2Q09 in line with revenue growth. Boosted by successful cost control measures, administrative expenses fell 20% while other expenses dipped 65%.

Financial income decreased from RMB0.6 million in 2Q08 to RMB0.02 million in 2Q09 due to interest income on fixed deposit have been recognized and booked in FY2008.

Financial expenses dipped from RMB1.4 million in 2Q08 to RMB0.7 million in 2Q09 as the Group no longer incurs interest on the RCPS which was fully redeemed in 1Q09.

Taxation increased from RMB0.5 million in 2Q08 to RMB2.0 million in 2Q09 due to an increase in income tax rate starting from FY2009 and an under-provision of income tax expenses for FY2008. Our tax concessions at 7.5% ended in FY2008 following the effectiveness of the new PRC tax laws on 1 January 2008 which stipulates a unified income tax rate of 25%. As a high-tech enterprise, we are entitled to a preferential income tax rate of 15%, however, there will be increase in income tax expenses going forward due to the increase in applicable income tax rate starting from FY2009. There were also approximately RMB0.3 million and RMB0.8 million under-provision of income tax from FY2008 and 1Q09, respectively, which led to increase in taxation for the quarter.

Overall, Group net profit attributable to equity holders dropped 76% from RMB2.3 million in 2Q08 to RMB0.6 million in 2Q09.

Financial Position

(30 June 2009 vs. 31 December 2008)

Non-current assets fell from RMB279.0 million to RMB275.9 million. Property, plant and equipment decreased from RMB47.9 million to RMB47.0 million due to depreciation and equipment disposal. Intangibles assets also dropped from RMB229.8 million to RMB227.7 million as a result of amortization of the intangible assets and disposal of product development in progress.

Current assets declined from RMB231.7 million to RMB140.5 million. Inventories fell from RMB28.3 million to RMB25.1 million as Group cleared stocks to meet higher demand and on better inventory control. Trade & bills receivables increased from RMB4.7 million to RMB8.8 million in line with higher sales. Other receivables, prepayments and deposits increased from RMB34.3 million to RMB59.3 million as the Group put down initial deposits for the acquisitions of certain product manufacturing rights and technical know-how. Cash and cash equivalents fell from RMB164.3 million to

RMB47.4 million mainly due to the utilization of funds to fully redeem the RCPS in 1Q09.

Non-current liabilities comprising deferred tax liabilities remained at RMB15.3 million levels.

Current liabilities fell from RMB193.3 million to RMB97.8 million. Trade and other payables decreased from RMB49.8 million to RMB44.5 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 RMB1.8 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.

The Group remains cautious about its outlook for the rest of 2009 as the difficult operating climate lingers. Notwithstanding this, the Group is committed to overcoming current economic challenges by stepping up its long-term growth strategy implementation.

Key to this effort is the ongoing investments in product R&D to maintain a strong innovative product pipeline. The Group will also continue to strengthen its business development efforts by further expanding domestic sales and capture opportunities to grow both internally and externally. The Chinese government's industry-stimulus package and ongoing health care reform extending health insurance coverage to the rural population will provide impetus for 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 Second Quarter Results of the Group for the financial period ended 30 June 2009 to be false or misleading in any material respect.

By Order of the Board

Wong Kai
Chairman
12 August 2009