



STAR

STAR PHARMACEUTICAL LIMITED

Registration No. 200500429W

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**UNAUDITED FIRST QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2010**

**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 2010 (a)	3 months ended 31 March 2009 (b)	Increase/ (decrease) +/(–) (a) – (b)
<b>Revenue</b>	34,434	29,632	16
Cost of sales	(21,637)	(17,585)	23
<b>Gross Profit</b>	<b>12,797</b>	<b>12,047</b>	6
Other operating income	165	400	(59)
Selling and distribution expenses	(3,054)	(2,830)	8
Administrative expenses	(5,383)	(5,273)	2
Other operating expenses	(145)	(183)	(21)
<b>Profit from operations</b>	<b>4,380</b>	<b>4,161</b>	5
Finance income	15	239	(94)
Finance expenses	(785)	(3,619)	(78)
<b>Profit before income tax</b>	<b>3,610</b>	<b>781</b>	362
Income tax	(409)	(55)	644
<b>Profit for the period</b>	<b>3,201</b>	<b>726</b>	341
<b>Attributable to:</b>			
Equity holders of the Company	3,468	1,521	128
Minority interest	(267)	(795)	(66)
<b>Profit for the period</b>	<b>3,201</b>	<b>726</b>	341
<b>Earnings per share (cents)</b>			
- Basic	<b>1.48</b>	<b>0.65</b>	
- Diluted	<b>1.48</b>	<b>0.65</b>	

Consolidation statement of Comprehensive Income for the year

	Group		
	RMB'000		(%)
	3 months ended 31 March 2010	3 months ended 31 March 2009	Increase/ (decrease) +/-
<b>Profit for the period</b>	<b>3,201</b>	<b>726</b>	341
Other comprehensive income:			
Exchange difference on consolidation	-	-	
<b>Other comprehensive income for the period, net of tax</b>	<b>3,201</b>	<b>726</b>	341
<b>Total comprehensive income attributable to :</b>			
Equity holders of the period	3,468	1,521	128
Minority interest	(267)	(795)	(66)
	<b>3,201</b>	<b>726</b>	341

Notes to the Income Statement:

	Group	
	RMB'000	
	3 months ended 31 March 2010	3 months ended 31 March 2009
<b>Profit before tax is arrived at after charging / (crediting) :</b>		
Interest income	15	239
Interest on borrowings	767	327
Foreign exchange (gain)/loss	2	2,315
Dividend on RCPS	-	977
Depreciation of property, plant and equipment	1,554	1,587
Amortization of deferred development cost	1,181	1,043
Amortization of lease prepayment	14	14
Amortization of RCPS transaction cost	-	185
(Gain) / Loss on disposal of fixed and intangible assets	(18)	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 2010 RMB'000	31 Dec 2009 RMB'000	31 Mar 2010 RMB'000	31 Dec 2009 RMB'000
<b>Non-current assets</b>					
Property, plant and equipment		43,369	44,870	32	36
Investment in subsidiaries		-	-	76,607	76,607
Lease prepayments		1,148	1,162	-	-
Intangible assets	(a)	175,505	176,604	-	-
		<b>220,022</b>	<b>222,636</b>	<b>76,639</b>	<b>76,643</b>
<b>Current assets</b>					
Inventories		22,946	23,247	-	-
Trade and bills receivables		6,527	2,289	-	-
Other receivables, prepayments and deposits		75,585	57,778	29,815	29,817
Due from subsidiaries (non-trade)		-	-	50,000	50,000
Cash and bank balances		47,066	63,733	2,199	3,938
		<b>152,124</b>	<b>147,047</b>	<b>82,014</b>	<b>83,755</b>
<b>Total assets</b>		<b>372,146</b>	<b>369,683</b>	<b>158,653</b>	<b>160,398</b>
<b>Equity</b>					
Share capital		144,975	144,975	144,975	144,975
Statutory reserves		18,810	18,810	-	-
Accumulated profits/(losses)		72,796	69,328	12,502	13,412
		<b>236,581</b>	<b>233,113</b>	<b>157,477</b>	<b>158,387</b>
Minority interests		17,315	17,582	-	-
<b>Total equity</b>		<b>253,896</b>	<b>250,695</b>	<b>157,477</b>	<b>158,387</b>
<b>Non-current liabilities</b>					
Deferred tax liabilities		15,234	15,254	-	-
		15,234	15,254	-	-
<b>Current liabilities</b>					
Trade and other payables		49,607	49,944	1,176	1,983
Secured bank loan		49,200	50,000	-	-
Due to related parties (non-trade)		1,939	1,851	-	28
Current tax payable		2,270	1,939	-	-
		103,016	103,734	1,176	2,011
<b>Total liabilities</b>		<b>118,250</b>	<b>118,988</b>	<b>1,176</b>	<b>2,011</b>
<b>Total equity and liabilities</b>		<b>372,146</b>	<b>369,683</b>	<b>158,653</b>	<b>160,398</b>

Notes :

- (a) Intangible assets comprise mainly of Deferred Development Cost with carrying value of RMB6,196,000. (At 31/12/2009: RMB1,878,000) and Product Development in Progress of RMB164,218,000 (At 31/12/2009: RMB169,635,000) and Goodwill of RMB5,091,000 (At 31/12/2009: RMB5,091,000).

**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 2010		As at 31 December 2009	
	Secured	Unsecured	Secured	Unsecured
	RMB'000	RMB'000	RMB'000	RMB'000
Bank Loan	49,200*	-	50,000	-

**Details of any collateral:**

\* The bank loan of RMB 49.2 million as at 31 March 2010 was secured on property, plant and equipment and land use rights with carrying amounts of approximately RMB28.9 million and RMB 1.2 million respectively of a subsidiary and another independent third party debtor.

**1(c) A cash flow statement (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 31 March**

<b>Group</b>	<b>RMB'000</b>	
	<b>Period ended 31 March 2010</b>	<b>Period ended 31 March 2009</b>
<b>Cash flow from operating activities</b>		
<b>Profit before income tax</b>	<b>3,610</b>	<b>781</b>
Adjustments for:		
Amortization of deferred development costs	1,181	1,043
Amortization of lease prepayment	14	14
Amortization of RCPS transaction cost	-	185
Depreciation of property, plant and equipment	1,554	1,587
(Gain) / loss on disposal of property, plant and equipment	(18)	20
Interest expense	767	327
Interest income	(15)	(239)
Exchange gain on RCPS	-	(9,621)
Dividend on RCPS	-	977
<b>Operating profit/(loss) before working capital changes</b>	<b>7,093</b>	<b>(4,926)</b>
<b>Changes in working capital:</b>		
Inventories	301	4,415
Trade and bills receivables	(4,238)	(3,336)
Other receivables and prepayments and deposits	(17,904)	(730)
Trade and other payables	(338)	(15,237)
<b>Cash used in operations</b>	<b>(15,086)</b>	<b>(19,814)</b>
Income tax paid	(97)	-
<b>Net cash used in operating activities</b>	<b>(15,183)</b>	<b>(19,814)</b>
<b>Cash flows from investing activities</b>		
Payments for product development in progress	(82)	(28)
Purchase of property, plant and equipment	(104)	(1,216)
Proceeds from disposal of property, plant and equipment	69	78
Deposit for potential investment	-	(270)
Deposit for patents	-	(47,954)
Refund of deposit from potential investment	97	-
Interest received	15	239
<b>Net cash used in investing activities</b>	<b>(5)</b>	<b>(49,151)</b>
<b>Cash flows from financing activities</b>		
Advance from a related parties	88	-
Repayment to related parties	-	(309)
Proceeds from bank loan	-	50,000

Repayment of bank loan	(800)	-
Repayment of RCPS principal	-	(123,856)
Payment of RCPS dividends	-	(7,170)
Interest paid	(767)	(327)
<b>Net cash used in financing activities</b>	<b>(1,479)</b>	<b>(81,662)</b>
Net (decrease) in cash and cash equivalents	<b>(16,667)</b>	<b>(150,627)</b>
Cash and cash equivalents at beginning of the period	63,733	164,266
<b>Cash and cash equivalents at end of the period</b>	<b>47,066</b>	<b>13,639</b>

**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 31 March**

<b>Group</b>	<b>Share capital</b>	<b>Statutory reserves</b>	<b>Accumulated profits</b>	<b>Total attributable to equity holders of the parents</b>	<b>Minority interest</b>	<b>Total equity</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>At 1 January 2009</b>	<b>144,975</b>	<b>17,668</b>	<b>107,476</b>	<b>270,119</b>	<b>31,883</b>	<b>302,002</b>
Total comprehensive income for the period	-	-	1,521	1,521	(795)	726
<b>At 31 March 2009</b>	<b>144,975</b>	<b>17,668</b>	<b>108,997</b>	<b>271,640</b>	<b>31,088</b>	<b>302,728</b>
<b>At 1 January 2010</b>	<b>144,975</b>	<b>18,810</b>	<b>69,328</b>	<b>233,113</b>	<b>17,582</b>	<b>250,695</b>
Total comprehensive income for the period	-	-	3,468	3,468	(267)	3,201
<b>At 31 March 2010</b>	<b>144,975</b>	<b>18,810</b>	<b>72,796</b>	<b>236,581</b>	<b>17,315</b>	<b>253,896</b>

<b>Company</b>	<b>Share capital</b>	<b>Accumulated losses</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>At 1 January 2009</b>	<b>144,975</b>	<b>(28,455)</b>	<b>116,520</b>
Total comprehensive loss for the period	-	(4,248)	(4,248)
<b>At 31 March 2009</b>	<b>144,975</b>	<b>(32,703)</b>	<b>112,272</b>
<b>At 1 January 2010</b>	<b>144,975</b>	<b>13,412</b>	<b>158,387</b>
Total comprehensive loss for the period	-	(910)	(910)
<b>At 31 March 2010</b>	<b>144,975</b>	<b>12,502</b>	<b>157,477</b>

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**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.**

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.

Payment of the preference cash dividends and cash redemption of RCPS has been made on 27 February 2009.

**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 2009: 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 2009.

**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 2010 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.**

	<b>Group</b>	
	<b>3 months ended 31 March 2010</b>	<b>3 months ended 31 March 2009</b>
Net Amount attributable to equity shareholders for the period (RMB'000)	3,468	1,521
No. of ordinary shares used in calculation of basic earning per share	234,125,000	234,125,000
<b>Earnings per ordinary share of the group, based on net profit attributable to the shareholders of the Company (in RMB cents):</b>		
(a) Based on weighted average number of ordinary shares on issue: and (in RMB cents)	1.48	0.65
(b) On a fully diluted basis (in RMB cents)	1.48	0.65



**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.**

	<b>Group</b>		<b>Company</b>	
	<b>3 months ended 31 March 2010</b>	<b>Year ended 31 December 2009</b>	<b>3 months ended 31 March 2010</b>	<b>Year ended 31 December 2009</b>
Net asset value per ordinary share capital at the end of the period (in RMB cents)	108.4	107.1	67.3	67.7

**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 grew 16% in 1Q10 to RMB34.4 million on strong domestic demand in the PRC. Net profit attributable to equity holders of the Company jumped 128% to RMB3.5 million on higher sales, successful cost management program and lower finance expenses after the Group fully redeemed the Redeemable Cumulative Convertible Preference Shares (RCPS) on 27 February 2009.

**Revenue**

Group revenue rose 16% to RMB34.4 million in 1Q10 supported by growing demand in the PRC for the Group's antibiotics and other specialized drugs.

	<b>3 months ended 31 March 2010</b>	<b>3 months ended 31 March 2009</b>	<b>Change</b>	
	<b>RMB'000</b>	<b>RMB'000</b>	<b>%</b>	<b>RMB'000</b>
Antibiotics	25,265	21,558	17	3,707
Cardiovascular drugs and cerebrovascular drugs	84	2,388	(96)	(2,304)
Other specialized drugs	8,928	5,686	57	3,242
TCM R&D	157	-	n.m.	157

<b>Total</b>	<b>34,434</b>	<b>29,632</b>	<b>16</b>	<b>4,802</b>

Sales of antibiotics, the Group's key product segment, increased 17% to RMB25.3 million in 1Q10 due to the outbreak of attacks by influenza virus H1N1, leading to strong domestic demand for Cefoperazone Sodium and Sulbactam Sodium for Injection, Azithromycin Aspartate for Injection, as well as Aztreonam for Injection. Antibiotics remained the largest revenue contributor, accounting for 73% of Group revenue in 1Q10.

Cardiovascular drugs and cerebrovascular drugs sales fell 96% to RMB84 million due to the spontaneity temporary suspension of the sales of major products, Cerebroprotein Hydrolysate Injection and Propylgallate for Injection, as the products undergo review by inhouse R&D team to take into account of new safety requirements by the Government's policy.

Other specialized drugs sales jumped 57% to RMB8.9 million in 1Q10 on strong demand for Amoxicillin and Dicloxacillin Sodium Tablets and Potassium Sodium Dehydroandrographolide Succinate for Injection.

TCM (Traditional Chinese Medicine) R&D revenue comprises the sales of preliminary R&D results for an upfront fee.

### **Profitability**

Gross profit rose 6% to RMB12.8 million in 1Q10 on higher revenue partially offset by the effect of raw material price inflation.

Other operating income fell 59% to RMB165k in 1Q10 from RMB400k in 1Q09 which comprised government grant which the Group has not been receives in this quarter.

Selling and distribution expenses increased 8% to RMB3.1 million as business volume increased. Administrative expenses rose a slight 2% to RMB5.4 million in 1Q10 mainly due to the increases in insurance expenses and drug registration fees.

Other expenses fell 21% to RMB145k due to lower losses on disposals of property, plant and equipment.

Finance income decreased 94% to RMB15k as interest income fell on lower bank fixed deposits.

Finance expenses dropped 78% to RMB0.8 million as the Group no longer incurs interest on the RCPS which was fully redeemed in 1Q09.

Income tax rose to RMB0.4 million on higher profit.

As a result, net profit attributable to equity holders soared 128% from RMB1.5 million in 1Q09 to RMB3.5 million in 1Q10.

## **Financial Position**

*(31 March 2010 vs. 31 December 2009)*

Non-current assets fell from RMB222.6 million to RMB220.0 million. Property, plant and equipment decreased from RMB44.9 million to RMB43.4 million due to depreciation and property & equipment disposal. Intangibles assets also dropped from RMB176.6 million to RMB175.5 million as a result of amortization.

Current assets increased from RMB147.0 million to RMB152.1 million. Inventories level was slightly down from RMB23.2 million to RMB22.9 million as higher sales drove quicker inventory turnover. Trade & bills receivables rose from RMB2.3 million to RMB6.5 million in line with higher sales. Other receivables, prepayments and deposits increased from RMB57.8 million to RMB75.6 million due to prepayments for the raw material and the Group's manufacturing facility upgrade to meet the requirements for a five-year license, and to expand the factory, equipments and facilities to improve productivity and in order to develop some new product lines in FY2010. Cash and bank balances fell from RMB63.7 million to RMB47.1 million due to the utilization of funds for the repayment of \$0.8 million in bank loan and prepayments for facility upgrade/expansion of plant and machinery and raw materials in order to develop the new product lines in FY2010.

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

Current liabilities fell marginally from RMB103.7 million to RMB103.0 million. Trade and other payables drop slightly from RMB49.9 million to RMB49.6 million on settlement of most of the long outstanding debt. The Group obtained an RMB50.0 million bank loan in 2Q09 to partially finance the redemption of RCPS. The bank loan was revalued to RMB49.2 million.

**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**

Continuous investments in the Group's strong Research and Development efforts to roll out new products remain key to the Group's long-term growth strategy. These initiatives are well-supported by the Group's ramping up of its business development engine aimed at 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.

The Group remains cautiously optimistic as it improved operating performance in another quarter marked by volatile operating conditions. The cornerstone of the Group's strategic efforts continues to be sustainable long term growth.

**11. Dividend**

**(a) Current Financial Period Reported On**

Any dividend declared for the current financial period reported on?

**Ordinary Shares:**

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

**(c) Date payable**

**Ordinary Shares:**

Not applicable.

**(d) Book Closure Date**

**Ordinary Shares:**

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 2010 to be materially false or misleading in any material respect.

**By Order of the Board**

**Wong Kai  
Chairman  
11 May 2010**