



STAR

STAR PHARMACEUTICAL LIMITED

Registration No. 200500429W

UNAUDITED HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 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			Group		
	RMB'000		(%)	RMB'000		(%)
	3 months ended 30 June 2010	3 months ended 30 June 2009	Increase/ (decrease) +/(–)	6 months ended 30 June 2010	6 months ended 30 June 2009	Increase/ (decrease) +/(–)
	(a)	(b)	(a) – (b)	(a)	(b)	(a) – (b)
Revenue	33,298	34,557	(4)	67,732	64,189	6
Cost of sales	(21,208)	(21,334)	(1)	(42,845)	(38,919)	10
Gross Profit	12,090	13,223	(9)	24,887	25,270	(2)
Other operating income	561	446	26	726	846	(14)
Selling and distribution expenses	(3,173)	(4,049)	(22)	(6,227)	(6,879)	(9)
Administrative expenses	(5,334)	(6,057)	(12)	(10,717)	(11,330)	(5)
Other operating expenses	(583)	(246)	137	(728)	(429)	70
Profit from operations	3,561	3,317	7	7,941	7,478	6
Financial income	363	19	1811	378	258	47
Financial expenses	(1,032)	(694)	49	(1,817)	(4,313)	(58)
Profit before income tax	2,892	2,642	9	6,502	3,423	90
Income tax	(1,211)	(2,033)	(40)	(1,620)	(2,088)	(22)
Profit for the period	1,681	609	176	4,882	1,335	266
Attributable to:						
Equity holders of the parent	2,077	552	276	5,545	2,073	167
Minority interest	(396)	57	n.m	(663)	(738)	(10)
Profit for the period	1,681	609	176	4,882	1,335	266
Earnings per share (RMB cents)						
- Basic (weighted average)	0.89	0.24		2.37	0.89	
- Fully diluted	0.89	0.24		2.37	0.89	

n.m – not meaningful.

Consolidation statement of Comprehensive income for the period

	Group			Group		
	RMB'000		(%)	RMB'000		(%)
	3 months ended 30 June 2010	3 months ended 30 June 2009	Increase/ (decrease) +/(–)	6 months ended 30 June 2010	6 months ended 30 June 2009	Increase/ (decrease) +/(–)
Profit for the period	1,681	609	176	4,882	1,335	266
Other comprehensive income:						
Exchange difference on consolidation	-	-		-	-	
Other comprehensive income for the period, net of tax	1,681	609	176	4,882	1,335	266
Total comprehensive income attributable to :						
Equity holders of the parent, net of tax	2,077	552	276	5,545	2,073	167
Minority interest, net of tax	(396)	57	n.m	(663)	(738)	(10)
	1,681	609	176	4,882	1,335	266

Notes to Income Statement:

	Group		Group	
	RMB'000		RMB'000	
	3 months ended 30 June 2010	3 months ended 30 June 2009	6 months ended 30 June 2010	6 months ended 30 June 2009
Profit before tax is arrived at after charging / (crediting) :				
Interest income	363	19	378	258
Interest on borrowings	900	879	1,667	1,206
Foreign exchange (gain)/loss	117	(185)	119	2,130
Dividend on RCPS	-	-	-	977
Depreciation of property, plant and equipment	1,518	1,461	3,072	3,048
Amortization of deferred development costs and lease prepayment	1,144	1,095	2,339	2,152
Amortization of RCPS transaction cost	-	-	-	185
(Gain)/loss on disposal of property, plant and equipment	194	130	176	150
Product development in progress written off	-	1,466	-	1,466

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 2010 RMB'000	31 Dec 2009 RMB'000	30 Jun 2010 RMB'000	31 Dec 2009 RMB'000
Non-current assets					
Property, plant and equipment		42,203	44,870	29	36
Investment in subsidiaries		-	-	76,607	76,607
Lease prepayments		1,133	1,162	-	-
Intangible assets	(a)	174,376	176,604	-	-
		217,712	222,636	76,636	76,643
Current assets					
Inventories		20,404	23,247	-	-
Trade and bills receivables		11,600	2,289	-	-
Other receivables, prepayments and deposits		76,007	57,778	29,625	29,817
Due from subsidiary (non-trade)		-	-	36,301	50,000
Cash and cash equivalents		44,416	63,733	2,943	3,938
		152,427	147,047	68,869	83,755
Total assets		370,139	369,683	145,505	160,398
Equity					
Share capital		144,975	144,975	144,975	144,975
Statutory reserves		18,810	18,810	-	-
Accumulated profits/(losses)		63,501	69,328	200	13,412
		227,286	233,113	145,175	158,387
Minority interests		16,919	17,582	-	-
Total equity		244,205	250,695	145,175	158,387
Non-current liabilities					
Deferred tax liabilities		15,215	15,254	-	-
		15,215	15,254	-	-
Current liabilities					
Trade and other payables		58,196	49,944	330	1,983
Secured bank loan		49,200	50,000	-	-
Due to related parties (non-trade)		1,709	1,851	-	28
Current tax payable		1,614	1,939	-	-
		110,719	103,734	330	2,011
Total liabilities		125,934	118,988	330	2,011
Total equity and liabilities		370,139	369,683	145,505	160,398

Notes:

- (a) Intangible assets comprise mainly of Deferred Development Cost with carrying value of RMB5,068,000. (At 31/12/2009: RMB1,878,000) and Product Development in Progress of RMB164,217,000 (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 30 June 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 30 June 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) 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

Group	RMB'000		RMB'000	
	3 months ended 30 June 2010	3 months ended 30 June 2009	6 months ended 30 June 2010	6 months ended 30 June 2009
Cash flow from operating activities				
Profit before income tax	2,892	2,642	6,502	3,423
Adjustments for:				
Amortisation of deferred development costs	1,129	1,080	2,310	2,123
Amortisation of lease prepayment	15	15	29	29
Amortisation of RCPS transaction cost	-	-	-	185
Depreciation of property, plant and equipment	1,518	1,461	3,072	3,048
Loss on disposal of property, plant and equipment	194	130	176	150
Product development in progress written off	-	1,466	-	1,466
Interest expense	900	879	1,667	1,206
Interest income	(363)	(19)	(378)	(258)
Exchange gain on RCPS	-	-	-	(9,621)
Dividend on RCPS	-	-	-	977
Operating profit before working capital changes	6,286	7,654	13,378	2,728
Changes in working capital:				
Inventories	2,542	(1,175)	2,843	3,240
Trade and bills receivables	(5,073)	(697)	(9,311)	(4,033)
Other receivables, prepayments and deposits	(568)	(6,778)	(18,472)	(7,508)
Trade and other payables	8,589	9,891	8,252	(5,346)
Cash generated from/ (used in) operations	11,776	8,895	(3,310)	(10,919)
Income tax paid	(1,887)	(2,526)	(1,984)	(2,526)
Net cash generated from/ (used in) operating activities	9,889	6,369	(5,294)	(13,445)
Cash flows from investing activities				
Payments for product development in progress	-	(1,464)	(82)	(1,492)
Purchase of property, plant and equipment	(546)	(1,218)	(650)	(2,434)
Proceeds from disposal of property, plant and equipment	-	50	69	128
Refund of deposit from potential investment	146	5,000	243	5,000

Refund from / (Deposit for) patents	-	25,550	-	(22,404)
Interest received	363	19	378	258
Net cash generated from/ (used in) investing activities	(37)	27,937	(42)	(20,944)
Cash flows from financing activities				
Proceeds from bank loan	-	-	-	50,000
Repayment to related parties	(230)	70	(142)	(239)
Repayment of bank loan	-	-	(800)	-
Payment of dividend to shareholders	(11,372)	-	(11,372)	-
Payment of RCPS principle	-	-	-	(123,856)
Payment of RCPS dividends	-	-	-	(7,170)
Interest paid	(900)	(879)	(1,667)	(1,206)
Net cash used in financing activities	(12,502)	(809)	(13,981)	(82,471)
Net increase/(decrease) in cash and cash equivalents	(2,650)	33,497	(19,317)	(116,860)
Cash and cash equivalents at beginning of the period	47,066	13,909	63,733	164,266
Cash and cash equivalents at end of the period	44,416	47,406	44,416	47,406

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 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
At 1 January 2010	144,975	18,810	69,328	233,113	17,582	250,695
Total comprehensive income for the period	-	-	5,545	5,545	(663)	4,882
Dividend paid	-	-	(11,372)	(11,372)	-	(11,372)

At 30 June 2010	144,975	18,810	63,501	227,286	16,919	244,205
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Company	Share capital	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000
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
At 1 January 2010	144,975	13,412	158,387
Total comprehensive income for the period	-	(1,840)	(1,840)
Dividend paid	-	(11,372)	(11,372)
At 30 June 2010	144,975	200	145,175

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.

	Group		Group	
	3 months ended 30 June 2010	3 months ended 30 June 2009	6 months ended 30 June 2010	6 months ended 30 June 2009
Net Profit for the period (RMB'000)	2,077	552	5,545	2,073
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)	0.89	0.24	2.37	0.89

(b) On a fully diluted basis (in RMB cents)	0.89	0.24	2.37	0.89
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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 2010	Year ended 31 December 2009	6 months ended 30 June 2010	Year ended 31 December 2009
Net asset value per ordinary share capital at the end of the period (in RMB cents)	104.3	107.1	62	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

The Group achieved a 276% jump in net profit attributable to equity holders of the Company in 2Q10 on revenue of RMB33.3 million. This was underpinned by 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 fell 4% to RMB33.3 million in 2Q10 mainly due to the Group's voluntary in-house review and suspension of 2 major cardiovascular drugs and cerebrovascular drugs to take into account new regulatory policy.

	3 months ended 30 June 2010	3 months ended 30 June 2009	Change		6 months ended 30 June 2010	6 months ended 30 June 2009	Change	
	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	%	RMB'000
Antibiotics	23,850	24,397	(2)	(547)	49,115	45,955	7	3,160
Cardiovascular drugs and cerebrovascular drugs	259	1,616	(84)	(1,357)	343	4,003	(91)	(3,660)
Other specialized drugs	9,189	7,823	17	1,366	18,117	13,510	34	4,607
TCM R&D	-	721	(100)	(721)	157	721	(78)	(564)

Total	33,298	34,557	(4)	(1,259)	67,732	64,189	6	3,543

Sales of antibiotics, the Group's key product segment, fell 2% to RMB22.9 million in 2Q10 due to lower sales of Cefepime hydrochloride for Injection and Ceftriaxone Sodium for Injection. Antibiotics remained the largest revenue contributor, accounting for 72% of Group revenue in 2Q10.

Cardiovascular drugs and cerebrovascular drugs sales fell 84% to RMB0.3 million due to the voluntary temporary suspension of the sales of major products, Cerebroprotein Hydrolysate Injection and Propylgallate for Injection, as the products undergo review by in-house R&D team to take into account new safety requirements by China authority.

Other specialized drugs sales rose 17% to RMB9.2 million in 2Q10 on strong demand for Potassium Sodium Dehydroandrographolide, Potassium Sodium Dehydroandrographolide Succinate for Injection, Water-soluble Vitamin for Injection and Sterile Water for Injection.

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

Profitability

Gross profit dropped 9% to RMB12.1 million in 2Q10 on lower revenue and raw material price inflation.

Other operating income which rose 26% to RMB561k in 2Q10 comprised government grant which the Group has been received in this quarter..

Selling and distribution expenses decreased 22% to RMB3.2 million, while administrative expenses fell 12% to RMB5.3 million in 2Q10 on successfully cost management.

Other expenses rose 137% to RMB0.6 million due to loss on disposal of property, plant and equipment as the Group dismantled the old plant in order to build a new plant and upgrade the manufacturing facility to meet the requirements for a five-year license renewal as well as improve productivity.

Finance income jumped 1,811% to RMB363k as interest income rose on higher bank fixed deposits.

Finance expenses rose 49% to RMB1.0 million as the Group incurs interest on bank borrowings.

Income tax slid 40% to RMB1.2 million as there was under-provision of income tax for 1Q09 which the Company recognized in 2Q09, raising tax expense for that period.

As a result, net profit attributable to equity holders soared 276% from RMB0.6 million in 2Q09 to RMB2.1 million in 2Q10.

Financial Position

(30 June 2010 vs. 31 December 2009)

Non-current assets fell from RMB222.6 million to RMB217.7 million. Property, plant and equipment decreased from RMB44.9 million to RMB42.2 million due to depreciation and property & equipment disposal. Intangibles assets also dropped from RMB176.6 million to RMB174.4 million as a result of amortization.

Current assets increased from RMB147.0 million to RMB152.4 million. Inventories level was down from RMB23.2 million to RMB20.4 million as higher sales drove quicker inventory turnover. Trade & bills receivables rose from RMB2.3 million to RMB11.6 million due to in line with higher domestic sales. Other receivables, prepayments and deposits increased from RMB57.8 million to RMB76.0 million due to prepayments for raw materials 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 RMB44.4 million due to dividend payment of RMB11.4 million in June 2010, and 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-million level.

Current liabilities increased from RMB103.7 million to RMB110.7 million. Trade and other payables rose from RMB49.9 million to RMB58.2 million due to increased purchase of raw materials in anticipation of further inflation and higher advance receipts from clients. 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 in FY2010.

- 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.**

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 Second Quarter Results of the Group for the financial period ended 30 June 2010 to be false or misleading in any material aspect.

By Order of the Board

Wong Kai
Chairman
12 August 2010