



**STAR**

**STAR PHARMACEUTICAL LIMITED**

Registration No. 200500429W

**UNAUDITED THIRD QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 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 September 2010 (a)	3 months ended 30 September 2009 (b)	Increase/ (decrease) +/(–) (a) – (b)	9 months ended 30 September 2010 (a)	9 months ended 30 September 2009 (b)	Increase/ (decrease) +/(–) (a) – (b)
<b>Revenue</b>	32,622	37,986	(14)	100,354	102,175	(2)
Cost of sales	(20,058)	(23,212)	(14)	(62,903)	(62,131)	1
<b>Gross Profit</b>	<b>12,564</b>	<b>14,774</b>	(15)	<b>37,451</b>	<b>40,044</b>	(6)
Other operating income	600	182	230	1,326	1,028	29
Selling and distribution expenses	(3,618)	(3,012)	20	(9,845)	(9,891)	1
Administrative expenses	(5,807)	(5,828)	1	(16,524)	(17,158)	(4)
Other operating expenses	(143)	(455)	(69)	(871)	(884)	(2)
<b>Profit from operations</b>	<b>3,596</b>	<b>5,661</b>	(36)	<b>11,537</b>	<b>13,139</b>	(12)
Financial income	25	54	(54)	403	312	29
Financial expenses	(787)	(802)	(2)	(2,604)	(5,115)	(49)
<b>Profit before income tax</b>	<b>2,834</b>	<b>4,913</b>	(42)	<b>9,336</b>	<b>8,336</b>	12
Income tax	(1,091)	(1,307)	(17)	(2,711)	(3,395)	(20)
<b>Profit for the period</b>	<b>1,743</b>	<b>3,606</b>	(52)	<b>6,625</b>	<b>4,941</b>	34
<b>Attributable to:</b>						
Equity holders of the parent	2,083	4,054	(49)	7,628	6,127	24
Minority interest	(340)	(448)	(24)	(1,003)	(1,186)	(15)
<b>Profit for the period</b>	<b>1,743</b>	<b>3,606</b>	(52)	<b>6,625</b>	<b>4,941</b>	34
<b>Earnings per share (RMB cents)</b>						
- Basic (weighted average)	0.89	1.73		3.26	2.62	
- Fully diluted	0.89	1.73		3.26	2.62	

n.m – not meaningful.

Consolidation statement of Comprehensive income for the period

	Group			Group		
	RMB'000		(%)	RMB'000		(%)
	3 months ended 30 September 2010	3 months ended 30 September 2009	Increase/ (decrease) +/(–)	9 months ended 30 September 2010	9 months ended 30 September 2009	Increase/ (decrease) +/(–)
<b>Profit for the period</b>	<b>1,743</b>	<b>3,606</b>	(52)	<b>6,625</b>	<b>4,941</b>	34
Other comprehensive income:						
Exchange difference on consolidation	-	-		-	-	
<b>Other comprehensive income for the period, net of tax</b>	<b>1,743</b>	<b>3,606</b>	(52)	<b>6,625</b>	<b>4,941</b>	34
<b>Total comprehensive income attributable to :</b>						
Equity holders of the parent, net of tax	2,083	4,054	(49)	7,628	6,127	24
Minority interest, net of tax	(340)	(488)	(24)	(1,003)	(1,186)	(15)
	<b>1,743</b>	<b>3,606</b>	(52)	<b>6,625</b>	<b>4,941</b>	34

Notes to Income Statement:

	Group		Group	
	RMB'000		RMB'000	
	3 months ended 30 September 2010	3 months ended 30 September 2009	9 months ended 30 September 2010	9 months ended 30 September 2009
<b>Profit before tax is arrived at after charging / (crediting) :</b>				
Interest income	14	54	392	312
Interest on borrowings	900	858	2,567	2,064
Foreign exchange (gain)/loss	(130)	(54)	(11)	2,076
Dividend on RCPS	-	-	-	977
Depreciation of property, plant and equipment	1,485	1,478	4,557	4,526
Amortization of deferred development costs and lease prepayment	256	1,111	2,595	3,263
Amortization of RCPS transaction cost	-	-	-	185
(Gain)/loss on disposal of property, plant and equipment	11	(118)	187	32
Product development in progress written off	-	4	-	1,470

**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 Sep 2010 RMB'000	31 Dec 2009 RMB'000	30 Sep 2010 RMB'000	31 Dec 2009 RMB'000
<b>Non-current assets</b>					
Property, plant and equipment		44,954	44,870	26	36
Investment in subsidiaries		-	-	76,607	76,607
Lease prepayments		1,119	1,162	-	-
Intangible assets	(a)	174,344	176,604	-	-
		<b>220,417</b>	<b>222,636</b>	<b>76,633</b>	<b>76,643</b>
<b>Current assets</b>					
Inventories		15,908	23,247	-	-
Trade and bills receivables		11,084	2,289	-	-
Other receivables, prepayments and deposits		81,367	57,778	29,131	29,817
Due from subsidiary (non-trade)		-	-	36,301	50,000
Cash and cash equivalents		44,791	63,733	3,042	3,938
		<b>153,150</b>	<b>147,047</b>	<b>68,474</b>	<b>83,755</b>
<b>Total assets</b>		<b>373,567</b>	<b>369,683</b>	<b>145,107</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)		65,584	69,328	(408)	13,412
		<b>229,369</b>	<b>233,113</b>	<b>144,567</b>	<b>158,387</b>
Minority interests		16,579	17,582	-	-
<b>Total equity</b>		<b>245,948</b>	<b>250,695</b>	<b>144,567</b>	<b>158,387</b>
<b>Non-current liabilities</b>					
Deferred tax liabilities		15,195	15,254	-	-
		15,195	15,254	-	-
<b>Current liabilities</b>					
Trade and other payables		59,104	49,944	540	1,983
Secured bank loan		49,200	50,000	-	-
Due to related parties (non-trade)		1,959	1,851	-	28
Current tax payable		2,161	1,939	-	-
		112,424	103,734	540	2,011
<b>Total liabilities</b>		<b>127,619</b>	<b>118,988</b>	<b>540</b>	<b>2,011</b>
<b>Total equity and liabilities</b>		<b>373,567</b>	<b>369,683</b>	<b>145,107</b>	<b>160,398</b>

Notes:

- (a) Intangible assets comprise mainly of Deferred Development Cost with carrying value of RMB4,825,000. (At 31/12/2009: RMB1,878,000) and Product Development in Progress of RMB164,428,000 (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**

	<b>As at 30 September 2010</b>		<b>As at 31 December 2009</b>	
	<b>Secured</b>	<b>Unsecured</b>	<b>Secured</b>	<b>Unsecured</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Bank Loan	49,200*	-	50,000	-

**Details of any collateral:**

- \* The bank loan of RMB 49.2 million as at 30 September 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 September**

<b>Group</b>	<b>RMB'000</b>		<b>RMB'000</b>	
	<b>3 months ended 30 Sep 2010</b>	<b>3 months ended 30 Sep 2009</b>	<b>9 months ended 30 Sep 2010</b>	<b>9 months ended 30 Sep 2009</b>
<b>Cash flow from operating activities</b>				
<b>Profit before income tax</b>	<b>2,834</b>	<b>4,913</b>	<b>9,336</b>	<b>8,336</b>
Adjustments for:				
Amortisation of deferred development costs	242	1,097	2,552	3,220
Amortisation of lease prepayment	14	14	43	43
Amortisation of RCPS transaction cost	-	-	-	185
Depreciation of property, plant and equipment	1,485	1,478	4,557	4,526
(Gain)/Loss on disposal of property, plant and equipment	11	(118)	187	32
Product development in progress written off	-	4	-	1,470
Interest expense	900	858	2,567	2,064
Interest income	(14)	(54)	(392)	(312)
Exchange gain on RCPS	-	-	-	(9,621)
Dividend on RCPS	-	-	-	977
<b>Operating profit before working capital changes</b>	<b>5,472</b>	<b>8,192</b>	<b>18,850</b>	<b>10,920</b>
<b>Changes in working capital:</b>				
Inventories	4,496	(3,126)	7,339	114
Trade and bills receivables	516	(468)	(8,795)	(4,501)
Other receivables, prepayments and deposits	(5,848)	(1,469)	(24,320)	(8,977)
Trade and other payables	908	3,224	9,160	(2,122)
<b>Cash generated from/ (used in) operations</b>	<b>5,544</b>	<b>6,353</b>	<b>2,234</b>	<b>(7,927)</b>
Income tax paid	(564)	(835)	(2,548)	(3,361)
<b>Net cash generated from/ (used in) operating activities</b>	<b>4,980</b>	<b>5,518</b>	<b>(314)</b>	<b>(7,927)</b>
<b>Cash flows from investing activities</b>				
Payments for product development in progress	(210)	(464)	(292)	(1,956)
Purchase of property, plant and equipment	(5,605)	(635)	(6,255)	(3,069)
Proceeds from disposal of property, plant and equipment	1,358	3	1,427	131
Refund of deposit from potential investment	488	-	731	5,000
Refund from / (Deposit for) patents	-	-	-	(22,404)

Interest received	14	54	392	312
<b>Net cash used in investing activities</b>	<b>(3,955)</b>	<b>(1,042)</b>	<b>(3,997)</b>	<b>(21,986)</b>
<b>Cash flows from financing activities</b>				
Proceeds from bank loan	-	-	-	50,000
Advance from a related parties	250	-	250	-
Repayment to related parties	-	(168)	(142)	(407)
Repayment of bank loan	-	-	(800)	-
Payment of dividend to shareholders	-	-	(11,372)	-
Payment of RCPS principle	-	-	-	(123,856)
Payment of RCPS dividends	-	-	-	(7,170)
Interest paid	(900)	(858)	(2,567)	(2,064)
<b>Net cash used in financing activities</b>	<b>(650)</b>	<b>(1,026)</b>	<b>(14,631)</b>	<b>(83,497)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>375</b>	<b>3,450</b>	<b>(18,942)</b>	<b>(113,410)</b>
Cash and cash equivalents at beginning of the period	44,416	47,406	63,733	164,266
<b>Cash and cash equivalents at end of the period</b>	<b>44,791</b>	<b>50,856</b>	<b>44,791</b>	<b>50,856</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 30 September**

<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	-	-	6,127	6,127	(1,186)	4,941
<b>At 30 September 2009</b>	<b>144,975</b>	<b>17,668</b>	<b>113,603</b>	<b>276,246</b>	<b>30,697</b>	<b>306,943</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	-	-	7,628	7,628	(1,003)	6,625
Dividend paid	-	-	(11,372)	(11,372)	-	(11,372)
<b>At 30 September 2010</b>	<b>144,975</b>	<b>18,810</b>	<b>65,584</b>	<b>229,369</b>	<b>16,579</b>	<b>245,948</b>

Company	Share capital	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000
<b>At 1 January 2009</b>	<b>144,975</b>	<b>(28,455)</b>	<b>116,520</b>
Total comprehensive loss for the period	-	(5,883)	(5,883)
<b>At 30 September 2009</b>	<b>144,975</b>	<b>(34,338)</b>	<b>110,637</b>
<b>At 1 January 2010</b>	<b>144,975</b>	<b>13,412</b>	<b>158,387</b>
Total comprehensive income for the period	-	(2,448)	(2,448)
Dividend paid	-	(11,372)	(11,372)
<b>At 30 September 2010</b>	<b>144,975</b>	<b>(408)</b>	<b>144,567</b>

**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 September 2010	3 months ended 30 September 2009	9 months ended 30 September 2010	9 months ended 30 September 2009
Net Profit for the period (RMB'000)	2,083	4,054	7,628	6,127
No. of ordinary shares used in calculation of basic earning per share	234,125,000	234,125,000	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 share on issue: and (in RMB cents)	0.89	1.73	3.26	2.62
(b) On a fully diluted basis (in RMB cents)	0.89	1.73	3.26	2.62



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	
	9 months ended 30 September 2010	Year ended 31 December 2009	9 months ended 30 September 2010	Year ended 31 December 2009
Net asset value per ordinary share capital at the end of the period (in RMB cents)	105.1	107.1	61.8	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 registered 14% lower revenue in 3Q2010 due to decreased antibiotics and Cardiovascular drugs and cerebrovascular drugs sales. Net profit attributable to equity holders fell 49% in 3Q2010 from that in 3Q2009, but rose 24% in 9M2010 from that in 9M2009.

#### Revenue

Group revenue fell 14% to RMB32.6 million in 3Q10 mainly due to lower demand for 2 of the Group's key antibiotics products, as well as the Group's voluntary in-house review and suspension of major cardiovascular drugs and cerebrovascular drugs to take into account new regulatory policy.

	3 months ended 30 Sep 2010	3 months ended 30 Sep 2009	Change		9 months ended 30 Sep 2010	9 months ended 30 Sep 2009	Change	
	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	%	RMB'000
Antibiotics	20,611	26,364	(22)	(5,753)	69,726	72,318	(4)	(2,592)
Cardiovascular drugs and cerebrovascular drugs	230	1,064	(78)	(834)	572	5,068	(89)	(4,496)
Other specialized drugs	11,649	10,417	12	1,232	29,766	23,927	24	5,839
TCM R&D	132	141	(6)	(9)	289	862	(66)	(573)
<b>Total</b>	<b>32,622</b>	<b>37,986</b>	<b>(14)</b>	<b>(5,364)</b>	<b>100,353</b>	<b>102,175</b>	<b>(2)</b>	<b>(1,822)</b>

Sales of the Group's major products, antibiotics, fell 22% to RMB20.6 million in 3Q10 due to lower sales of Cefepime hydrochloride for Injection and Ceftriaxone Sodium for Injection. Antibiotics remained the largest revenue contributor, accounting for 63% of Group revenue in 3Q10.

Cardiovascular drugs and cerebrovascular drugs sales fell 78% to RMB0.2 million due to the voluntary temporary suspension of the sales of major products, Cerebroprotein Hydrolysate Injection and Puerarin 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 12% to RMB11.6 million in 3Q10 on strong demand for Potassium Sodium Dehydroandrographolide, Potassium Sodium Dehydroandrographolide Succinate for Injection and Amoxicillin and Dicloxacillin Sodium Tablets.

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

### **Profitability**

Gross profit fell 15% to RMB12.6 million in 3Q10 mainly on lower sales.

Other operating income comprised government grant. It rose 230% to RMB600k in 3Q10 being clinical research subsidy funds received from government for the implementation of new drug development.

Selling and distribution expenses increased 20% to RMB3.6 million as various reimbursement claims by sales representative offices for 2Q10 were made only in 3Q2010. Administrative expenses remained at RMB5.8 million level as the Group kept a tight lid on costs.

Other expenses fell 69% to RMB0.1 million due to write-back of FY2008 over-provision in 3Q2009.

Income tax slid 17% to RMB1.1 million on lower profit.

Due to the above, net profit attributable to equity holders fell 49% to RMB2.1 million in 3Q10.

## **Financial Position**

*(30 September 2010 vs. 31 December 2009)*

Non-current assets fell from RMB222.6 million to RMB220.4 million. Property, plant and equipment remained at approximately RMB44.9 million level as depreciation offsets plant upgrades. Intangibles assets dropped from RMB176.6 million to RMB174.3 million as a result of amortization.

Current assets increased from RMB147.0 million to RMB153.2 million. Inventories level was down from RMB23.2 million to RMB15.9 million owing to inventory controls. Trade & bills receivables rose from RMB2.3 million to RMB11.1 million due to new trade debts from domestic customers. Other receivables, prepayments and deposits increased from RMB57.8 million to RMB81.4 million due to 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 RMB44.8 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 RMB112.4 million. Trade and other payables rose from RMB49.9 million to RMB59.1 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.**

The Group maintains a cautious outlook for the rest of 2010 as it continues to enhance product line and productivity amidst uncertain operating conditions. The cornerstone of the Group's strategic efforts continues to be sustainable long term growth.

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.

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

**By Order of the Board**

**Wong Kai**

**Chairman**

**11 November 2010**