



STAR

STAR PHARMACEUTICAL LIMITED

Registration No. 200500429W

UNAUDITED FIRST QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2011

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 2011 (a)	3 months ended 31 March 2010 (b)	Increase/ (decrease) +/(–) (a) – (b)
Revenue	22,230	34,434	(35)
Cost of sales	(16,428)	(21,637)	(24)
Gross Profit	5,802	12,797	(55)
Other operating income	240	165	45
Selling and distribution expenses	(291)	(3,054)	(90)
Administrative expenses	(3,982)	(5,383)	(26)
Other operating expenses	(49)	(145)	(66)
Profit from operations	1,720	4,380	(61)
Finance income	12	15	(20)
Finance expenses	(829)	(785)	6
Profit before income tax	903	3,610	(75)
Income tax	(20)	(409)	(95)
Profit for the period	883	3,201	(72)
Attributable to:			
Equity holders of the Company	1,154	3,468	(67)
Minority interest	(271)	(267)	1
Profit for the period	883	3,201	(72)
Earnings per share (cents)			
- Basic	0.49	1.48	
- Diluted	0.49	1.48	

Consolidation statement of Comprehensive Income for the year

	Group		Increase/ (decrease) +/(-)
	RMB'000		
	3 months ended 31 March 2011	3 months ended 31 March 2010	(%)
Profit for the period	883	3,201	(72)
Other comprehensive income:			
Exchange difference on consolidation	-	-	
Other comprehensive income for the period, net of tax	883	3,201	(72)
Total comprehensive income attributable to :			
Equity holders of the period	1,154	3,468	(67)
Minority interest	(271)	(267)	1
	883	3,201	(72)

Notes to the Income Statement:

	Group	
	RMB'000	
	3 months ended 31 March 2011	3 months ended 31 March 2010
Profit before tax is arrived at after charging / (crediting) :		
Interest income	12	15
Interest on borrowings	809	767
Foreign exchange (gain)/loss	-	2
Depreciation of property, plant and equipment	1,302	1,554
Amortization of deferred development cost	596	1,181
Amortization of lease prepayment	15	14
(Gain) / Loss on disposal of fixed and intangible assets	-	(18)

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 2011 RMB'000	31 Dec 2010 RMB'000	31 Mar 2011 RMB'000	31 Dec 2010 RMB'000
Non-current assets					
Property, plant and equipment		54,782	55,452	20	23
Investment in subsidiaries		-	-	76,607	76,607
Lease prepayments		1,090	1,105	-	-
Intangible assets	(a)	168,994	169,590	-	-
Other receivables, prepayments and deposits		14,800	14,800	-	-
		239,666	240,947	76,627	76,630
Current assets					
Inventories		28,508	25,305	-	-
Trade and bills receivables		4,694	4,772	-	-
Other receivables, prepayments and deposits		81,900	69,317	8,934	8,892
Due from subsidiaries (non-trade)		-	-	54,301	54,301
Cash and bank balances		5,705	20,055	791	2,996
		120,807	119,449	64,026	66,189
Total assets		360,473	360,396	140,653	142,819
Equity					
Share capital		144,975	144,975	144,975	144,975
Statutory reserves		18,810	18,810	-	-
Accumulated profits/(losses)		62,709	61,555	(5,339)	(4,428)
		226,494	225,340	139,636	140,547
Minority interests		16,185	16,456	-	-
Total equity		242,679	241,796	139,636	140,547
Non-current liabilities					
Deferred tax liabilities		15,155	15,175	-	-
		15,155	15,175	-	-
Current liabilities					
Trade and other payables		49,648	50,565	1,017	2,272
Secured bank loan		49,200	49,200	-	-
Due to related parties (non-trade)		3,066	2,931	-	-
Current tax payable		725	729	-	-
		102,639	103,425	1,017	2,272
Total liabilities		117,794	118,600	1,017	2,272
Total equity and liabilities		360,473	360,396	140,653	142,819

Notes :

- (a) Intangible assets comprise mainly of Deferred Development Cost with carrying value of RMB8,968,000. (At 31/12/2010: RMB9,564,000) and Product Development in Progress of RMB160,026,000 (At 31/12/2010: RMB160,026,000) .

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 2011		As at 31 December 2010	
	Secured	Unsecured	Secured	Unsecured
	RMB'000	RMB'000	RMB'000	RMB'000
Bank Loan	49,200	-	49,200 [*]	-

Details of any collateral:

^{*} The bank loan was secured on property, plant and equipment and land use rights with carrying amounts of approximately RMB33.4 million and RMB 1.1 million respectively. The interest was charged at 9.39% per annum in FY2010.

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

Group	RMB'000	
	Period ended 31 March 2011	Period ended 31 March 2010
Cash flow from operating activities		
Profit before income tax	903	3,610
Adjustments for:		
Amortization of deferred development costs	596	1,181
Amortization of lease prepayment	15	14
Depreciation of property, plant and equipment	1,302	1,554
(Gain) / loss on disposal of property, plant and equipment	-	(18)
Interest expense	809	767
Interest income	(12)	(15)
Operating profit before working capital changes	3,613	7,093
Changes in working capital:		
Inventories	(3,203)	301
Trade and bills receivables	(127)	(4,238)
Other receivables and prepayments and deposits	(11,153)	(17,904)
Trade and other payables	(714)	(338)
Cash used in operations	(11,584)	(15,086)
Income tax paid	(44)	(97)
Net cash used in operating activities	(11,628)	(15,183)
Cash flows from investing activities		
Payments for product development in progress	-	(82)
Purchase of property, plant and equipment	(632)	(104)
Prepayments for plant and equipment	(1,428)	-
Proceeds from disposal of property, plant and equipment	-	69
Refund of deposit from potential investment	-	97
Interest received	12	15
Net cash used in investing activities	(2,048)	(5)
Cash flows from financing activities		
Advance from a related parties	135	88
Repayment of bank loan	-	(800)
Interest paid	(809)	(767)
Net cash used in financing activities	(674)	(1,479)
Net (decrease) in cash and cash equivalents	(14,350)	(16,667)
Cash and cash equivalents at beginning of the period	20,055	63,733
Cash and cash equivalents at end of the period	5,705	47,066

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

Group	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 2010	144,975	18,810	69,328	233,113	17,582	250,695
Total comprehensive income for the period	-	-	3,468	3,468	(267)	3,201
At 31 March 2010	144,975	18,810	72,796	236,581	17,315	253,896
At 1 January 2011	144,975	18,810	61,555	225,340	16,456	241,796
Total comprehensive income for the period	-	-	1,154	1,154	(271)	883
At 31 March 2011	144,975	18,810	62,709	226,494	16,185	242,679

Company	Share capital	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2010	144,975	13,412	158,387
Total comprehensive loss for the period	-	(910)	(910)
At 31 March 2010	144,975	12,502	157,477
At 1 January 2011	144,975	(4,428)	140,547
Total comprehensive loss for the period	-	(911)	(911)
At 31 March 2011	144,975	(5,339)	139,636

- 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.**

There were no movements in the Company's share capital for the financial period ended 31 March 2011.

The Company did not have any outstanding convertibles and treasury shares 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.

- 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 2010: 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 2010.

- 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 2011 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 2011	3 months ended 31 March 2010
Net Amount attributable to equity shareholders for the period (RMB'000)	1,154	3,468
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)	0.49	1.48
(b) On a fully diluted basis (in RMB cents)	0.49	1.48

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 2011	Year ended 31 December 2010	3 months ended 31 March 2011	Year ended 31 December 2010
Net asset value per ordinary share capital at the end of the period (in RMB cents)	103.7	103.3	59.6	60.0

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 net profit attributable to equity holders of RMB1.2 million on revenue of RMB22.2 million in 1Q2011 amidst another challenging quarter.

Revenue

Group revenue fell 35% to RMB22.2 million in 1Q2011 mainly due to falling sales of antibiotics partially cushioned by increase in demand for the Group's cardiovascular drugs and cerebrovascular drugs.

	3 months ended	3 months ended	Change	
	31 March 2011	31 March 2010	%	RMB'000
	RMB'000	RMB'000		
Antibiotics	14,059	25,265	(44)	(11,206)
Cardiovascular drugs and cerebrovascular drugs	287	84	242	203
Other specialized drugs	7,885	8,928	(12)	(1,043)
TCM R&D	-	157	(100)	(157)
Total	22,231	34,434	(35)	(12,203)

Sales of the Group's major products, antibiotics, fell 44% to RMB14.1 million in 1Q2011 due to lower sales of Azithromycin Aspartate for Injection, Aztreonam for Injection and Cefepime hydrochloride for Injection. Antibiotics sales were also affected by substantial reductions in the selling prices of antibiotics products led by China government's price interventions on antibiotics which continued into 2011. Antibiotics remained the largest revenue contributor, accounting for 63% of Group revenue in 1Q2011.

Cardiovascular drugs and cerebrovascular drugs sales surged 242% to RMB0.29 million due to increase in demand for the Group's Aceglutamide for Injection and Vinpocetine for Injection products.

Other specialized drugs sales dropped 12% to RMB7.9 million in 1Q2011 on lower demand for Potassium Sodium Dehydroandrographolide Succinate for Injection and Water-soluble Vitamin for Injection.

TCM (Traditional Chinese Medicine) R&D business is currently still in the gestation stage and has yet to contribute consistent sales revenue.

Profitability

Gross profit fell 55% to RMB5.8 million in 1Q2011 mainly on lower sales and inflationary cost pressures.

Other operating income rose 45% to RMB0.24 million in 1Q2011 due to receipt of clinical research subsidy funds received from government for the implementation of new drug development as well as penalty income from distributors.

Selling and distribution expenses dropped 90% to RMB0.3 million while administrative expenses fell 26% to RMB4.0 million on the Group's successfully cost restructuring and productivity enhancement initiatives.

Other expenses fell 66% to RMB0.05 million on lower loss on disposal of property, plant and equipment.

Finance income dropped 20% to RMB12k due to decreased interest income on lower bank fixed deposits.

Finance expenses rose 6% to RMB0.83 million on higher bank charges and interest.

Income tax slid 95% to RMB20k on lower taxable profit.

Overall, the Group achieved net profit attributable to equity holders of RMB1.2 million in 1Q2011 compared with RMB3.5 million in 1Q2010.

Financial Position

(31 March 2011 vs. 31 December 2010)

Non-current assets fell slightly from RMB240.9 million to RMB240.0 million. Property, plant and equipment decreased from RMB55.5 million to RMB54.8 million on depreciation and disposal of the fixed assets. Intangibles assets dropped from RMB169.6 million to RMB169.0 million as a result of amortization.

Current assets increased from RMB119.4 million to RMB120.8 million on higher inventories and other receivables, prepayments and deposits. Inventories level rose from RMB25.3 million to RMB28.5 million as the Group made purchases of raw materials in anticipation of further inflation. Trade & bills receivables dropped from RMB4.8 million to RMB4.7 million due to settlement of some trade debts. Other receivables, prepayments and deposits increased from RMB69.3 million to RMB81.9 million due to prepayments for raw material purchases, and the Group's manufacturing facility upgrade to meet the requirements for the new government policy in relation to new drugs registration, and to expand the factory, equipment and facilities to improve productivity and in order to develop some new product lines. Cash and bank balances fell from RMB20.1 million to RMB5.7 million due to repayment of trade debt and prepayment for raw material purchases as well as expansion of plant, machinery and raw material inventories in order to develop the new products line in FY2011.

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

Current liabilities decreased slightly from RMB103.4 million to RMB102.6 million. Trade and other payables fell from RMB50.6 million to RMB49.6 million due to repayments.

Cash Flow Statement

The Group's net cash used in operating activities in 1Q2011 was RMB11.6 million. This was mainly due to the Group's usual operating business. The net cash outflow of RMB 11.2 million in 1Q2011 was mainly due to the purchases of raw material to prepare for higher production and sales for the next quarter.

Net cash used in investing activities amounted to RMB 2.1 million. This was primarily due to the prepayment of plant upgrades and the purchases of new machinery and equipment in order to improve productivity and meet the new government policy of new drugs registration requirements.

The Group's net cash outflow from financing activities amounted to RMB0.7million. This was due to the interest paid of bank loan.

- 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 capturing 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 2011 to be materially false or misleading in any material respect.

By Order of the Board

**Wong Kai
Chairman
13 May 2011**