



**STAR**

**STAR PHARMACEUTICAL LIMITED**

Registration No. 200500429W

**UNAUDITED HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 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			Group		
	RMB'000		(%)	RMB'000		(%)
	3 months ended 30 June 2011	3 months ended 30 June 2010	Increase/ (decrease) +/(–)	6 months ended 30 June 2011	6 months ended 30 June 2010	Increase/ (decrease) +/(–)
	(a)	(b)	(a) – (b)	(a)	(b)	(a) – (b)
<b>Revenue</b>	23,187	33,298	(30)	45,417	67,732	(33)
<b>Cost of sales</b>	(17,392)	(21,208)	(18)	(33,820)	(42,845)	(21)
<b>Gross Profit</b>	<b>5,795</b>	<b>12,090</b>	(52)	<b>11,597</b>	<b>24,887</b>	(53)
Other operating income	261	561	(53)	501	726	(31)
Selling and distribution expenses	(171)	(3,173)	(95)	(462)	(6,227)	(93)
Administrative expenses	(4,858)	(5,334)	(9)	(8,840)	(10,717)	(18)
Other operating expenses	(256)	(583)	(56)	(305)	(728)	(58)
<b>Profit from operations</b>	<b>771</b>	<b>3,561</b>	(78)	<b>2,491</b>	<b>7,941</b>	(69)
Financial income	10	363	(97)	22	378	(94)
Financial expenses	(1,039)	(1,032)	1	(1,868)	(1,817)	3
<b>(Loss)/Profit before income tax</b>	<b>(258)</b>	<b>2,892</b>	n.m	<b>645</b>	<b>6,502</b>	(90)
Income tax	(522)	(1,211)	(57)	(542)	(1,620)	(67)
<b>(Loss)/Profit for the period</b>	<b>(780)</b>	<b>1,681</b>	n.m	<b>103</b>	<b>4,882</b>	(98)
<b>Attributable to:</b>						
Equity holders of the parent	(656)	2,077	n.m	498	5,545	(91)
Minority interest	(124)	(396)	(69)	(395)	(663)	(40)
<b>(Loss)/Profit for the period</b>	<b>(780)</b>	<b>1,681</b>	n.m	<b>103</b>	<b>4,882</b>	(98)
<b>Earnings per share (RMB cents)</b>						
- Basic (weighted average)	(0.28)	0.89		0.21	2.37	
- Fully diluted	(0.28)	0.89		0.21	2.37	

n.m – not meaningful.

Consolidation statement of Comprehensive income for the period

	Group			Group		
	RMB'000		(%)	RMB'000		(%)
	3 months ended 30 June 2011	3 months ended 30 June 2010	Increase/ (decrease) +/(–)	6 months ended 30 June 2011	6 months ended 30 June 2010	Increase/ (decrease) +/(–)
<b>(Loss)/Profit for the period</b>	<b>(780)</b>	<b>1,681</b>	n.m	<b>103</b>	<b>4,882</b>	<b>(98)</b>
Other comprehensive income:						
Exchange difference on consolidation	-	-		-	-	
<b>Other comprehensive income for the period, net of tax</b>	<b>(780)</b>	<b>1,681</b>	n.m	<b>103</b>	<b>4,882</b>	<b>(98)</b>
<b>Total comprehensive income attributable to :</b>						
Equity holders of the parent, net of tax	(656)	2,077	n.m	498	5,545	(91)
Minority interest, net of tax	(124)	(396)	(69)	(395)	(663)	(40)
	<b>(780)</b>	<b>1,681</b>	n.m	<b>103</b>	<b>4,882</b>	<b>(98)</b>

Notes to Income Statement:

	Group		Group	
	RMB'000		RMB'000	
	3 months ended 30 June 2011	3 months ended 30 June 2010	6 months ended 30 June 2011	6 months ended 30 June 2010
<b>Profit before tax is arrived at after charging / (crediting) :</b>				
Interest income	9	363	21	378
Interest on borrowings	979	900	1,788	1,667
Foreign exchange (gain)/loss	-	117	-	119
Depreciation of property, plant and equipment	1,331	1,518	2,633	3,072
Amortization of deferred development costs	597	1,129	1,193	2,310
Amortization of lease prepayment	14	15	29	29
(Gain)/loss on disposal of property, plant and equipment	65	194	65	176

**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 2011	31 Dec 2010	30 Jun 2011	31 Dec 2010
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>					
Property, plant and equipment		63,150	55,452	17	23
Investment in subsidiaries		-	-	76,607	76,607
Lease prepayments		1,076	1,105	-	-
Intangible assets	(a)	168,501	169,590	-	-
Other receivables, prepayments and deposits		14,799	14,800	-	-
		<b>247,526</b>	<b>240,947</b>	<b>76,624</b>	<b>76,630</b>
<b>Current assets</b>					
Inventories		23,416	25,305	-	-
Trade and bills receivables		7,104	4,772	-	-
Other receivables, prepayments and deposits		67,209	69,317	8,959	8,892
Due from subsidiary (non-trade)		-	-	52,180	54,301
Cash and cash equivalents		8,254	20,055	1,119	2,996
		<b>105,983</b>	<b>119,449</b>	<b>62,258</b>	<b>66,189</b>
<b>Total assets</b>		<b>353,509</b>	<b>360,396</b>	<b>138,882</b>	<b>142,819</b>
<b>Equity</b>					
Share capital		144,975	144,975	144,975	144,975
Statutory reserves		18,810	18,810	-	-
Accumulated profits/(losses)		62,053	61,555	(6,625)	(4,428)
		<b>225,838</b>	<b>225,340</b>	<b>138,350</b>	<b>140,547</b>
Minority interests		16,061	16,456	-	-
<b>Total equity</b>		<b>241,899</b>	<b>241,796</b>	<b>138,350</b>	<b>140,547</b>
<b>Non-current liabilities</b>					
Deferred tax liabilities		15,136	15,175	-	-
		15,136	15,175	-	-
<b>Current liabilities</b>					
Trade and other payables		43,711	50,565	532	2,272
Secured bank loan		49,200	49,200	-	-
Due to related parties (non-trade)		3,066	2,931	-	-
Current tax payable		497	729	-	-
		<b>96,474</b>	<b>103,425</b>	<b>532</b>	<b>2,272</b>
<b>Total liabilities</b>		<b>111,610</b>	<b>118,600</b>	<b>532</b>	<b>2,272</b>
<b>Total equity and liabilities</b>		<b>353,509</b>	<b>360,396</b>	<b>138,882</b>	<b>142,819</b>

Notes:

- (a) Intangible assets comprise mainly of Deferred Development Cost with carrying value of RMB8,371,000. (At 31/12/2010: RMB9,564,000) and Product Development in Progress of RMB160,130,000 (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 30 June 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) 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**

<b>Group</b>	<b>RMB'000</b>		<b>RMB'000</b>	
	<b>3 months ended 30 June 2011</b>	<b>3 months ended 30 June 2010</b>	<b>6 months ended 30 June 2011</b>	<b>6 months ended 30 June 2010</b>
<b>Cash flow from operating activities</b>				
<b>(Loss)/Profit before income tax</b>	<b>(258)</b>	<b>2,892</b>	<b>645</b>	<b>6,502</b>
Adjustments for:				
Amortisation of deferred development costs	597	1,129	1,193	2,310
Amortisation of lease prepayment	14	15	29	29
Depreciation of property, plant and equipment	1,331	1,518	2,633	3,072
Loss on disposal of property, plant and equipment	65	194	65	176
Interest expense	979	900	1,788	1,667
Interest income	(9)	(363)	(21)	(378)
<b>Operating profit before working capital changes</b>	<b>2,719</b>	<b>6,285</b>	<b>6,332</b>	<b>13,378</b>
<b>Changes in working capital:</b>				
Inventories	5,092	2,542	1,889	2,843
Trade and bills receivables	(2,410)	(5,073)	(2,537)	(9,311)
Other receivables, prepayments and deposits	15,382	(568)	4,229	(18,472)
Trade and other payables	(5,936)	8,590	(6,650)	8,252
<b>Cash generated from/ (used in) operations</b>	<b>14,847</b>	<b>11,776</b>	<b>3,263</b>	<b>(3,310)</b>
Income tax paid	(769)	(1,887)	(813)	(1,984)
<b>Net cash generated from/ (used in) operating activities</b>	<b>14,078</b>	<b>9,889</b>	<b>2,450</b>	<b>(5,294)</b>
<b>Cash flows from investing activities</b>				
Payments for product development in progress	(104)	-	(104)	(82)
Purchase of property, plant and equipment	(9,764)	(546)	(10,396)	(650)
Prepayment for plant and equipment	(691)	-	(2,119)	-
Proceeds from disposal of property, plant and equipment	-	-	-	69
Refund of deposit from potential investment	-	146	-	243
Interest received	9	363	21	378
<b>Net cash used in investing activities</b>	<b>(10,550)</b>	<b>(37)</b>	<b>(12,598)</b>	<b>(42)</b>

<b>Cash flows from financing activities</b>				
Advances from related parties	-	-	135	-
Repayment to related parties	-	(230)	-	(142)
Repayment of bank loan	-	-	-	(800)
Payment of dividend to shareholders	-	(11,372)	-	(11,372)
Interest paid	(979)	(900)	(1,788)	(1,667)
<b>Net cash used in financing activities</b>	<b>(979)</b>	<b>(12,502)</b>	<b>(1,653)</b>	<b>(13,981)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2,549</b>	<b>(2,650)</b>	<b>(11,801)</b>	<b>(19,317)</b>
Cash and cash equivalents at beginning of the period	5,705	47,066	20,055	63,733
<b>Cash and cash equivalents at end of the period</b>	<b>8,254</b>	<b>44,416</b>	<b>8,254</b>	<b>44,416</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 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
<b>At 1 January 2010</b>	144,975	18,810	69,328	233,113	17,582	250,695
Total comprehensive income/(loss) for the period	-	-	5,545	5,545	(663)	4,882
Dividend paid	-	-	(11,372)	(11,372)	-	(11,372)
<b>At 30 June 2010</b>	<b>144,975</b>	<b>18,810</b>	<b>63,501</b>	<b>227,286</b>	<b>16,919</b>	<b>244,205</b>
<b>At 1 January 2011</b>	144,975	18,810	61,555	225,340	16,456	241,796
Total comprehensive income/(loss) for the period	-	-	498	498	(395)	103
<b>At 30 June 2011</b>	<b>144,975</b>	<b>18,810</b>	<b>62,053</b>	<b>225,838</b>	<b>16,061</b>	<b>241,899</b>

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	-	(1,840)	(1,840)
Dividend paid	-	(11,372)	(11,372)
At 30 June 2010	144,975	200	145,175
At 1 January 2011	144,975	(4,428)	140,547
Total comprehensive loss for the period	-	(2,197)	(2,197)
At 30 June 2011	144,975	(6,625)	138,350

**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 30 June 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		Group	
	3 months ended 30 June 2011	3 months ended 30 June 2010	6 months ended 30 June 2011	6 months ended 30 June 2010
Net (Loss)/Profit for the period (RMB'000)	(656)	2,077	498	5,545
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)	(0.28)	0.89	0.21	2.37
(b) On a fully diluted basis (in RMB cents)	(0.28)	0.89	0.21	2.37



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:-
- current financial year reported on ; and
  - immediate preceding financial year.

	Group		Company	
	6 months ended 30 June 2011	Year ended 31 December 2010	6 months ended 30 June 2011	Year ended 31 December 2010
Net asset value per ordinary share capital at the end of the period (in RMB cents)	103.3	103.3	59.1	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 :-
- 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
  - 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 faced another challenging quarter in 2Q2011 due to increased government regulations and inflationary cost pressures. Group revenue and net loss attributable to equity holders amounted to RMB23.2 million and RMB0.7 million respectively in 2Q2011.

#### Revenue

Group revenue fell 30% to RMB23.2 million in 2Q2011 on lower sales of antibiotics and other specialized drugs.

	3 months ended 30 June 2011	3 months ended 30 June 2010	Change		6 months ended 30 June 2011	6 months ended 30 June 2010	Change	
	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	%	RMB'000
Antibiotics	12,813	23,850	(46)	(11,037)	26,871	49,115	(45)	(22,244)
Cardiovascular drugs and cerebrovascular drugs	309	259	19	50	596	343	74	253
Other specialized drugs	8,364	9,189	(9)	(825)	16,249	18,117	(10)	(1,868)
TCM R&D	1,701	-	100	1,701	1,701	157	983	1,544
<b>Total</b>	<b>23,187</b>	<b>33,298</b>	<b>(30)</b>	<b>(10,111)</b>	<b>45,417</b>	<b>67,732</b>	<b>(33)</b>	<b>(22,315)</b>

Sales of the Group's major products, antibiotics, fell 46% to RMB12.8 million in 2Q2011 due to lower sales of Azithromycin Aspartate for Injection and Aztreonam for Injection. Antibiotics sales were generally affected by substantial reductions in the selling prices of antibiotics products led by China government's price interventions on antibiotics which continued into 2011. China government also implemented the new Drug Safety Supervision System Policies this year which include the supervision and monitoring of purchase volume limit and drug product purchase prices of medical institutions. Antibiotics remained the largest revenue contributor, accounting for 55% of Group revenue in 2Q2011.

Cardiovascular drugs and cerebrovascular drugs sales jumped 19% to RMB0.3 million due to increase in demand for the Group's Vinpocetine for Injection products.

Other specialized drugs sales dropped 9% to RMB8.4 million in 2Q2011 on lower demand for Potassium Sodium Dehydroandrographolide Succinate for Injection and Sterile Water for Injection.

TCM (Traditional Chinese Medicine) R&D business posted RMB1.7 million in revenue in 2Q2011 from sales of preliminary R&D results for an upfront fee.

### **Profitability**

Gross profit fell 52% to RMB5.8 million in 2Q2011 mainly on lower sales and inflationary cost pressures.

Other operating income declined 53% to RMB0.3 million in 2Q2011 due to lower amount of clinical research subsidy funds received from government for the implementation of new drug development.

Selling and distribution expenses dropped 95% to RMB0.2 million while administrative expenses fell 9% to RMB4.9 million on the Group's successfully operation restructuring and productivity enhancement initiatives.

Other expenses fell 56% to RMB0.3 million on lower loss on disposal of property, plant and equipment.

Finance income dropped 97% to RMB10k due to decreased interest income on lower bank fixed deposits.

Finance expenses rose 1% to RMB1.04 million on higher bank charges and interest.

Income tax slid 57% to RMB0.5 million on lower taxable profit.

The above culminated in the Group posting net loss attributable to equity holders of RMB0.7 million in 2Q2011 compared with RMB2.1 million profit in 2Q2010.

## **Financial Position**

*(30 June 2011 vs. 31 December 2010)*

Non-current assets rose from RMB240.9 million to RMB247.5 million. Property, plant and equipment increased from RMB55.5 million to RMB63.2 million on the Group's manufacturing facility upgrade to meet new regulatory requirements in relation to new drugs registration, and expansion of factory, equipment and facilities to improve productivity and to develop new product lines. Intangibles assets dropped from RMB169.6 million to RMB168.5 million as a result of amortization.

Current assets decreased from RMB119.4 million to RMB106.0 million on lower inventories, receivables and cash balances. Inventories level fell from RMB25.3 million to RMB23.4 million on greater inventory controls. Trade & bills receivables increased from RMB4.8 million to RMB7.1 million due to new trade debts from domestic customers. Other receivables, prepayments and deposits decreased from RMB69.3 million to RMB67.2 million due to the capitalization of some prepayments for the Group's manufacturing facility upgrade as fixed assets. Cash and bank balances fell from RMB20.1 million to RMB8.3 million as the Group paid out approximately RMB10.4 million in FY2011 to upgrade facilities to meet the new government requirements in relation to new drugs registration, and to expand the factory, equipment and facilities to improve productivity and in order to develop new product lines.

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

Current liabilities decreased from RMB103.4 million to RMB96.5 million. Trade and other payables fell from RMB50.6 million to RMB43.7 million due to repayments.

## **Cash Flow Statement**

The Group's net cash inflow from operating activities in 1H2011 was RMB2.5 million. This was mainly due to the Group's usual operating business. The net cash inflow of RMB 14.1 million in 2Q2011 was mainly due to collection of other receivables and offset the prepayment from usual operating business.

Net cash used in from investing activities in 1H2011 was RMB 12.6 million and 2Q2011 was RMB10.5 million. This was primarily due to the payment for 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 in 1H2011 was RMB1.7million and 2Q2011 was RMB 0.98million. 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.**

The Group maintains its cautious outlook for the rest of FY2011 as it works on improving performance in difficult 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 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.

## 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 2011 to be false or misleading in any material aspect.

**By Order of the Board**

**Wong Kai**  
**Chairman**  
**11 August 2011**