



STAR

STAR PHARMACEUTICAL LIMITED

Registration No. 200500429W

UNAUDITED THIRD QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2011

PART 1 – INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a) An income statement and statement of comprehensive income, or a statement of comprehensive income, (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 2011	3 months ended 30 September 2010	Increase/ (decrease) +/-	9 months ended 30 September 2011	9 months ended 30 September 2010	Increase/ (decrease) +/-
	(a)	(b)	(a) – (b)	(a)	(b)	(a) – (b)
Revenue	20,214	32,622	(38)	65,631	100,354	(35)
Cost of sales	(15,282)	(20,058)	(24)	(49,102)	(62,903)	(22)
Gross Profit	4,932	12,564	(61)	16,529	37,451	(56)
Other operating income	105	600	(83)	606	1,326	(54)
Selling and distribution expenses	(164)	(3,618)	(95)	(626)	(9,845)	(94)
Administrative expenses	(6,494)	(5,807)	12	(15,334)	(16,524)	(7)
Other operating expenses	(332)	(143)	132	(637)	(871)	(27)
(Loss)/Profit from operations	(1,953)	3,596	n.m	538	11,537	(95)
Financial income	10	25	(60)	32	403	(92)
Financial expenses	(1,154)	(787)	47	(3,022)	(2,604)	16
(Loss)/Profit before income tax	(3,097)	2,834	n.m	(2,452)	9,336	n.m
Income tax	88	(1,091)	n.m	(454)	(2,711)	(83)
(Loss)/Profit for the period	(3,009)	1,743	n.m	(2,906)	6,625	n.m
Attributable to:						
Equity holders of the parent	(2,714)	2,083	n.m	(2,216)	7,628	n.m
Minority interest	(295)	(340)	(13)	(690)	(1,003)	(31)
(Loss)/Profit for the period	(3,009)	1,743	n.m	(2,906)	6,625	n.m
Earnings per share (RMB cents)						
- Basic (weighted average)	(1.16)	0.89		(0.95)	3.26	
- Fully diluted	(1.16)	0.89		(0.95)	3.26	

n.m – not meaningful.

Consolidation statement of Comprehensive income for the period

	Group			Group		
	RMB'000		(%)	RMB'000		(%)
	3 months ended 30 September 2011	3 months ended 30 September 2010	Increase/ (decrease) +/(–)	9 months ended 30 September 2011	9 months ended 30 September 2010	Increase/ (decrease) +/(–)
(Loss)/Profit for the period	(3,009)	1,743	n.m	(2,906)	6,625	n.m
Other comprehensive income:						
Exchange difference on consolidation	-	-		-	-	
Other comprehensive income for the period, net of tax	(3,009)	1,743	n.m	(2,906)	6,625	n.m
Total comprehensive income attributable to :						
Equity holders of the parent, net of tax	(2,714)	2,083	n.m	(2,216)	7,628	n.m
Minority interest, net of tax	(295)	(340)	(13)	(690)	(1,003)	(31)
	(3,009)	1,743	n.m	(2,906)	6,625	n.m

Notes to Income Statement:

	Group		Group	
	RMB'000		RMB'000	
	3 months ended 30 September 2011	3 months ended 30 September 2010	9 months ended 30 September 2011	9 months ended 30 September 2010
(Loss)/Profit before tax is arrived at after charging / (crediting) :				
Interest income	(10)	(14)	(31)	(392)
Interest on borrowings	1,126	900	2,914	2,567
Foreign exchange loss/(gain)	21	(130)	78	(11)
Depreciation of property, plant and equipment	1,227	1,485	3,860	4,557
Amortization of deferred development costs	597	242	1,790	2,552
Amortization of lease prepayment	14	14	43	43
Loss on disposal of property, plant and equipment	126	11	191	187

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 2011 RMB'000	31 Dec 2010 RMB'000	30 Sep 2011 RMB'000	31 Dec 2010 RMB'000
Non-current assets					
Property, plant and equipment		63,084	55,452	14	23
Investment in subsidiaries		-	-	76,607	76,607
Lease prepayments		1,062	1,105	-	-
Intangible assets	(a)	167,904	169,590	-	-
Other receivables, prepayments and deposits		14,800	14,800	-	-
		246,850	240,947	76,621	76,630
Current assets					
Inventories		16,589	25,305	-	-
Trade and bills receivables		6,313	4,772	-	-
Other receivables, prepayments and deposits		61,007	69,317	8,950	8,892
Due from subsidiary (non-trade)		-	-	52,180	54,301
Cash and cash equivalents		8,465	20,055	286	2,996
		92,374	119,449	61,416	66,189
Total assets		339,224	360,396	138,037	142,819
Equity					
Share capital		144,975	144,975	144,975	144,975
Statutory reserves		18,810	18,810	-	-
Accumulated profits/(losses)		59,339	61,555	(7,532)	(4,428)
		223,124	225,340	137,443	140,547
Minority interests		15,766	16,456	-	-
Total equity		238,890	241,796	137,443	140,547
Non-current liabilities					
Deferred tax liabilities		15,116	15,175	-	-
		15,116	15,175	-	-
Current liabilities					
Trade and other payables		31,870	50,565	594	2,272
Secured bank loan		49,200	49,200	-	-
Due to related parties (non-trade)		3,697	2,931	-	-
Current tax payable		451	729	-	-
		85,218	103,425	594	2,272
Total liabilities		100,334	118,600	594	2,272
Total equity and liabilities		339,224	360,396	138,037	142,819

Notes:

- (a) Intangible assets comprise mainly of Deferred Development Cost with carrying value of RMB7,775,000. (At 31/12/2010: RMB9,564,000) and Product Development in Progress of RMB160,129,000 (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 September 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 September

Group	RMB'000		RMB'000	
	3 months ended 30 Sep 2011	3 months ended 30 Sep 2010	9 months ended 30 Sep 2011	9 months ended 30 Sep 2010
Cash flow from operating activities				
(Loss)/Profit before income tax	(3,097)	2,834	(2,452)	9,336
Adjustments for:				
Amortisation of deferred development costs	597	242	1,790	2,552
Amortisation of lease prepayment	14	14	43	43
Depreciation of property, plant and equipment	1,227	1,485	3,860	4,557
Loss on disposal of property, plant and equipment	126	11	191	187
Interest expense	1,126	900	2,914	2,567
Interest income	(10)	(14)	(31)	(392)
Operating (loss)/profit before working capital changes	(17)	5,472	6,315	18,850
Changes in working capital:				
Inventories	6,827	4,496	8,716	7,339
Trade and bills receivables	791	516	(1,746)	(8,795)
Other receivables, prepayments and deposits	7,057	(5,848)	11,286	(24,320)
Trade and other payables	(11,842)	908	(18,492)	9,160
Cash generated from operations	2,816	5,544	6,079	2,234
Income tax paid	22	(564)	(791)	(2,548)
Net cash generated from/ (used in) operating activities	2,838	4,980	5,288	(314)
Cash flows from investing activities				
Payments for product development in progress	-	(210)	(104)	(292)
Purchase of property, plant and equipment	(1,287)	(5,605)	(11,683)	(6,255)
Prepayment for Plant and equipment	(855)	-	(2,974)	-
Proceeds from disposal of property, plant and equipment	-	1,358	-	1,427
Refund of deposit from potential investment	-	488	-	731
Interest received	10	14	31	392
Net cash used in investing activities	(2,132)	(3,955)	(14,730)	(3,997)
Cash flows from financing activities				
Advance from a related parties	631	250	766	250

Repayment to related parties	-	-	-	(142)
Repayment of bank loan	-	-	-	(800)
Payment of dividend to shareholders	-	-	-	(11,372)
Interest paid	(1,126)	(900)	(2,914)	(2,567)
Net cash used in financing activities	(495)	(650)	(2,148)	(14,631)
Net increase/(decrease) in cash and cash equivalents	211	375	(11,590)	(18,942)
Cash and cash equivalents at beginning of the period	8,254	44,416	20,055	63,733
Cash and cash equivalents at end of the period	8,465	44,791	8,465	44,791

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

<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 2010	144,975	18,810	69,328	233,113	17,582	250,695
Total comprehensive income/(loss) for the period	-	-	7,628	7,628	(1,003)	6,625
Dividend paid	-	-	(11,372)	(11,372)	-	(11,372)
At 30 September 2010	144,975	18,810	65,584	229,369	16,579	245,948
At 1 January 2011	144,975	18,810	61,555	225,340	16,456	241,796
Total comprehensive loss for the period	-	-	(2,216)	(2,216)	(690)	(2,906)
At 30 September 2011	144,975	18,810	59,339	223,124	15,766	238,890

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	-	(2,448)	(2,448)
Dividend paid	-	(11,372)	(11,372)
At 30 September 2010	144,975	(408)	144,567
At 1 January 2011	144,975	(4,428)	140,547
Total comprehensive loss for the period	-	(3,104)	(3,104)
At 30 September 2011	144,975	(7,532)	137,443

- 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 September 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 September 2011	3 months ended 30 September 2010	9 months ended 30 September 2011	9 months ended 30 September 2010
Net (Loss)/ Profit for the period (RMB'000)	(2,714)	2,083	(2,216)	7,628
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)	(1.16)	0.89	(0.95)	3.26
(b) On a fully diluted basis (in RMB cents)	(1.16)	0.89	(0.95)	3.26

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 2011	Year ended 31 December 2010	9 months ended 30 September 2011	Year ended 31 December 2010
Net asset value per ordinary share capital at the end of the period (in RMB cents)	102.0	103.3	58.7	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's 3Q2011 results was adversely affected by the ongoing volume and selling price controls for certain products by the China government, and losses incurred by the Group's Traditional Chinese Medicine Research and Development division. Group revenue and net loss attributable to equity holders amounted to RMB20.2 million and RMB2.7 million respectively in 3Q2011.

Revenue

Group revenue fell 38% to RMB20.2 million in 3Q2011 attributable to increased government regulations and lower sales of antibiotics and other specialized drugs.

	3 months ended 30 Sep 2011	3 months ended 30 Sep 2010	Change		9 months ended 30 Sep 2011	9 months ended 30 Sep 2010	Change	
	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	%	RMB'000
Antibiotics	10,904	20,611	(47)	(9,707)	37,775	69,726	(46)	(31,951)
Cardiovascular drugs and cerebrovascular drugs	427	230	87	197	1,022	573	78	449
Other specialized drugs	7,938	11,649	(32)	(3,711)	24,188	29,766	(19)	(5,578)
TCM R&D	945	132	616	813	2,646	289	816	2,357
Total	20,214	32,622	(38)	(12,408)	65,631	100,354	(35)	(34,723)

Sales of the Group's major products, antibiotics, fell 47% to RMB10.9 million in 3Q2011 mainly due to substantial reductions in the selling prices of antibiotics products led by China government's continued price interventions on antibiotics, as well as the implementation of the Drug Safety Supervision System Policies by the China government this year which include the supervision and monitoring of purchase volume limits and purchase prices of drug products by China medical institutions. Lower sales were registered for Azithromycin Aspartate for Injection, Cefoperazone Sodium and Sulbactam Sodium for Injection. Antibiotics remained the largest revenue contributor, accounting for 54% of Group revenue in 3Q2011.

Cardiovascular drugs and cerebrovascular drugs sales jumped 87% to RMB0.4 million due to increase in demand for the Group's Vinpocetine for Injection products.

Other specialized drugs sales dropped 32% to RMB7.9 million in 3Q2011 on lower demand for Potassium Sodium Dehydroandrographolide Succinate for Injection and Calcium Folate for Injection.

TCM (Traditional Chinese Medicine) R&D business posted RMB0.9 million in revenue in 3Q2011 from sales of preliminary R&D results for an upfront fee.

Profitability

Gross profit fell 61% to RMB4.9 million in 3Q2011 mainly on lower sales and inflationary cost pressures.

Other operating income declined 83% to RMB0.1 million in 3Q2011 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 on the Group's successfully cost restructuring and productivity enhancement initiatives. Administrative expenses increased 12% to RMB6.5 million on recognition of staff insurance, welfare and annual fee in 3Q2011 while such expenses were booked in the 2nd quarter in the previous year.

Other expenses rose 132% to RMB0.3 million on loss on disposal of property, plant and equipment.

Finance income dropped 60% to RMB10k due to decreased interest income on lower bank fixed deposits.

Finance expenses rose 47% to RMB1.2 million on higher bank charges and interest.

As a result of the above, the Group posted net loss attributable to equity holders of RMB2.7 million in 3Q2011 compared with RMB2.1 million profit in 3Q2010.

Financial Position

(30 September 2011 vs. 31 December 2010)

Non-current assets rose from RMB240.9 million to RMB246.9 million. Property, plant and equipment increased from RMB55.5 million to RMB63.1 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 RMB167.9 million as a result of amortization.

Current assets decreased from RMB119.4 million to RMB92.4 million on lower inventories, receivables and cash balances. Inventories level fell from RMB25.3 million to RMB16.6 million on greater inventory controls. Trade & bills receivables increased from RMB4.8 million to RMB6.3 million due to new trade debts. Other receivables, prepayments and deposits decreased from RMB69.3 million to RMB61.0 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 RMB8.5 million as the Group paid out approximately RMB14.6 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 RMB85.2 million. Trade and other payables fell from RMB50.6 million to RMB31.9 million due to repayments.

Cash Flow Statement

The Group's net cash inflow from operating activities in 9M2011 was RMB5.3 million. This was mainly due to the Group's usual operating business. The net cash inflow of RMB 2.8 million in 3Q2011 was mainly due to collection of other receivables and offset the prepayment from usual operating business.

Net cash used in from investing activities in 9M2011 was RMB 14.7 million and 3Q2011 was RMB2.1 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 9M2011 was RMB2.1million and 3Q2011 was RMB 0.5million. 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 expects the difficult operating conditions to continue into the rest of FY2011.

The cornerstone of the Group's strategic efforts continues to be sustainable long term growth, backed by continuous investments in the Group's strong Research and Development efforts to roll out new products. 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:

Nil

(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. If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.**

Not applicable.

- 14. Negative Assurance Confirmation pursuant to SGX Listing Rule 705(5)**

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 2011 to be false or misleading in any material aspect.

By Order of the Board

**Wong Kai
Chairman
14 November 2011**