

**STAR****STAR PHARMACEUTICAL LIMITED**

Registration No. 200500429W

UNAUDITED FIRST QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2012**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 2012	3 months ended 31 March 2011	Increase/ (decrease) +/(–)
	(a)	(b)	(a) – (b)
Revenue	17,342	22,230	(22)
Cost of sales	(11,387)	(16,428)	(31)
Gross Profit	5,955	5,802	3
Other operating income	373	240	55
Selling and distribution expenses	(421)	(291)	45
Administrative expenses	(3,989)	(3,982)	0
Other operating expenses	(207)	(49)	322
Profit from operations	1,711	1,720	(1)
Finance income	20	12	67
Finance expenses	(1,693)	(829)	104
Profit before income tax	38	903	(96)
Income tax	(25)	(20)	25
Profit for the period	13	883	(99)
Attributable to:			
Equity holders of the Company	154	1,154	(87)
Minority interest	(141)	(271)	(48)
Profit for the period	13	883	(99)
Earnings per share (cents)			
- Basic	0.07	0.49	
- Diluted	0.07	0.49	

Consolidation statement of Comprehensive Income for the year

	Group		
	RMB'000		(%)
	3 months ended 31 March 2012	3 months ended 31 March 2011	Increase/ (decrease) +/-
Profit for the period	13	883	(99)
Other comprehensive income:			
Exchange difference on consolidation	-	-	
Other comprehensive income for the period, net of tax	13	883	(99)
Total comprehensive income attributable to :			
Equity holders of the period	154	1,154	(87)
Minority interest	(141)	(271)	(48)
	13	883	(99)

Notes to the Income Statement:

	Group	
	RMB'000	
	3 months ended 31 March 2012	3 months ended 31 March 2011
Profit before tax is arrived at after charging / (crediting) :		
Interest income	20	12
Interest on borrowings	1,334	809
Depreciation of property, plant and equipment	1,270	1,302
Amortization of deferred development cost	624	596
Amortization of lease prepayment	15	15
Loss on disposal of fixed and intangible assets	1	-

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 2012 RMB'000	31 Dec 2011 RMB'000	31 Mar 2012 RMB'000	31 Dec 2011 RMB'000
Non-current assets					
Property, plant and equipment		68,457	69,537	10	12
Investment in subsidiaries		-	-	76,607	76,607
Lease prepayments		1,033	1,048	-	-
Intangible assets	(a)	166,134	166,758	-	-
Refundable deposit		14,800	14,800	-	-
		250,424	252,143	76,617	76,619
Current assets					
Inventories		9,150	9,682	-	-
Trade and bills receivables		1,507	2,527	-	-
Other receivables, prepayments and deposits		69,291	67,677	7,048	6,944
Due from subsidiaries (non-trade)		-	-	49,181	52,180
Cash and bank balances		21,199	18,205	1,158	452
		101,147	98,091	57,387	59,576
Total assets		351,571	350,234	134,004	136,195
Equity					
Share capital		144,975	144,975	144,975	144,975
Statutory reserves		18,810	18,810	-	-
Accumulated profits/(losses)		50,170	50,016	(12,882)	(11,780)
		213,955	213,801	132,093	133,195
Minority interests		15,405	15,546	-	-
Total equity		229,360	229,347	132,093	133,195
Non-current liabilities					
Deferred tax liabilities		15,076	15,096	-	-
		15,076	15,096	-	-
Current liabilities					
Trade and other payables		42,329	40,994	1,098	2,187
Secured bank loan		60,000	60,000	-	-
Due to related parties (non-trade)		4,740	4,770	813	813
Income tax payable		66	27	-	-
		107,135	105,791	1,911	3,000
Total liabilities		122,211	120,887	1,911	3,000
Total equity and liabilities		351,571	350,234	134,004	136,195

Notes :

- (a) Intangible assets comprise mainly of Deferred Development Cost with carrying value of RMB7,114,000. (At 31/12/2011: RMB7,738,000) and Product Development in Progress of RMB159,020,000 (At 31/12/2011: RMB159,020,000) .

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 2012		As at 31 December 2011	
	Secured	Unsecured	Secured	Unsecured
	RMB'000	RMB'000	RMB'000	RMB'000
Bank Loan	60,000	-	60,000 *	-

Details of any collateral:

* The bank loan was secured on property, plant and equipment and land use rights with carrying amounts of approximately RMB29.0 million and RMB 1.0 million respectively. The interest was charged at a range from 7.23% to 10% per annum in FY2011.

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 2012	Period ended 31 March 2011
Cash flow from operating activities		
Profit before income tax	38	903
Adjustments for:		
Amortization of deferred development costs	624	596
Amortization of lease prepayments	15	15
Depreciation of property, plant and equipment	1,270	1,302
Loss on disposal of property, plant and equipment	1	-
Interest expense	1,334	809
Interest income	(20)	(12)
Operating profit before working capital changes	3,262	3,613
Changes in working capital:		
Inventories	532	(3,203)
Trade and bills receivables	1,020	(127)
Other receivables and prepayments and deposits	(1,614)	(11,153)
Trade and other payables	1,334	(714)
Cash generated from / (used in) operations	4,534	(11,584)
Income tax paid	(6)	(44)
Net cash generated from / (used in) operating activities	4,528	(11,628)
Cash flows from investing activities		
Purchase of property, plant and equipment	(190)	(632)
Prepayments for plant and equipment	-	(1,428)
Interest received	20	12
Net cash used in investing activities	(170)	(2,048)
Cash flows from financing activities		
Advances from related parties	-	135
Repayment to related parties	(30)	-
Interest paid	(1,334)	(809)
Net cash used in financing activities	(1,364)	(674)
Net increase / (decrease) in cash and cash equivalents	2,994	(14,350)
Cash and cash equivalents at beginning of the period	18,205	20,055
Cash and cash equivalents at end of the period	21,199	5,705

- 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

<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 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
At 1 January 2012	144,975	18,810	50,016	213,801	15,546	229,347
Total comprehensive income for the period	-	-	154	154	(141)	13
At 31 March 2012	144,975	18,810	50,170	213,955	15,405	229,360

Company	Share capital	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000
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
At 1 January 2012	144,975	(11,780)	133,195
Total comprehensive loss for the period	-	(1,102)	(1,102)
At 31 March 2012	144,975	(12,882)	132,093

- 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 2012.

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 2011: 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 2011.

- 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 2012 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 2012	3 months ended 31 March 2011
Net Amount attributable to equity shareholders for the period (RMB'000)	154	1,154
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)	0.07	0.49
(b) On a fully diluted basis (in RMB cents)	0.07	0.49

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 2012	Year ended 31 December 2011	3 months ended 31 March 2012	Year ended 31 December 2011
Net asset value per ordinary share capital at the end of the period (in RMB cents)	97.96	97.96	56.42	56.89

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

Amidst challenging business conditions in 1Q2012 and the ongoing volume and selling price controls for certain products by the China government, the Group posted net profit attributable to equity holders of RMB0.154 million on revenue of RMB17.3 million in 1Q2012.

Revenue

Group revenue fell 22% to RMB17.3 million in 1Q2012 due mainly to increased government regulations and lower sales of antibiotics and cardiovascular drugs and cerebrovascular drugs.

	3 months ended 31 March 2012	3 months ended 31 March 2011	Change	
	RMB'000	RMB'000	%	RMB'000
Antibiotics	8,061	14,058	(43)	(5,997)
Cardiovascular drugs and cerebrovascular drugs	204	287	(29)	(83)
Other specialized drugs	9,077	7,885	15	1,192
Total	17,342	22,230	(22)	(4,888)

Sales of the Group's major products, antibiotics, fell 43% to RMB8.1 million in 1Q2012 as the Group continued to be adversely affected by 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 and Aztreonam for Injection. With this drop in revenue, Antibiotics has fallen from being the largest to the second biggest revenue contributor, accounting for 46% of Group revenue in 1Q2012.

Cardiovascular drugs and cerebrovascular drugs sales declined 29% to RMB0.2 million due to decrease in demand for the Group's Aceglutamide for Injection products.

Other specialized drugs sales increased 15% to RMB9.1 million in 1Q2012 on higher demand for Bocobal Mecobalamin Injection, Potassium Sodium Dehydroandrographolide Succinate for Injection and Ropivacaine Mesilate Injection. Other specialized drugs constituted 52% of Group revenue in 1Q2012, making it the new largest revenue contributor.

Profitability

Gross profit increased 3% to RMB6.0 million in 1Q2012 in spite of lower sales owing to ease up from the inflationary cost pressures.

Other income jumped 55% to RMB0.4 million in 1Q2012 due to higher amount of clinical research subsidy funds received from government for the implementation of new drug development, as well as penalty income from certain distributors.

Selling and distribution expenses rose 45% to RMB0.4 million as the Group embarked on brand building initiatives to enhance customer awareness and attract new customers through sales promotion and advertisements. Administrative expenses were kept in check at RMB4.0 million level.

Other expenses rose 322% to RMB0.2 million mainly due to charity donation.

Finance income increased 67% to RMB0.02 million due to increased bank fixed deposits.

Finance expenses climbed 104% to RMB1.7 million on higher bank interest.

Income tax fell 25% to RMB0.025 million due to lower taxable profits.

Overall, the Group posted net profit attributable to equity holders of RMB0.154 million in 1Q2012 compared with RMB1.2 million in 1Q2012.

Financial Position

(31 March 2012 vs. 31 December 2011)

Non-current assets fell from RMB252.1 million to RMB250.4 million. Property, plant and equipment decreased from RMB69.5 million to RMB68.5 million due to depreciation and disposal of fixed assets. Intangibles assets dropped from RMB166.8 million to RMB166.1 million as a result of amortization.

Current assets increased from RMB98.1 million to RMB101.1 million on higher other receivables and cash balances. Inventories level fell from RMB9.7 million to RMB9.2 million on greater inventory controls. Trade & bills receivables fell from RMB2.5 million to RMB1.5 million due to better debt collections. Other receivables, prepayments and deposits rose from RMB67.7 million to RMB69.3 million due to prepayment of raw materials purchases in 1Q2012. Cash and bank balances increased from RMB18.2 million to RMB21.2 million on collection of trade debts.

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

Current liabilities rose from RMB105.8 million to RMB107.1 million. Trade and other payables increased from RMB41.0 million to RMB42.3 million due to receipt in advance from client and purchase of new equipment to upgrade Group facilities.

Cash Flow Statement

The Group's net cash inflow from operating activities in 1Q2012 was RMB4.5 million. This was mainly due to collection of trade receivable and receipt in advance from Group's usual operating business.

Net cash used in investing activities in 1Q2012 amounted to RMB 0.2 million. This was primarily due to the purchases of new machinery and equipment in order to improve productivity.

The Group's net cash outflow from financing activities in 1Q2012 amounted to RMB1.4million. 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

The Group's business outlook remains difficult for the rest of FY2012 as regulatory challenges and uncertain market conditions persist.

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:

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. 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(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 2012 to be materially false or misleading in any material aspect.

By Order of the Board

Wong Kai
Chairman
14 May 2012