



STAR

STAR PHARMACEUTICAL LIMITED

Registration No. 200500429W

UNAUDITED HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 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			Group		
	RMB'000		(%)	RMB'000		(%)
	3 months ended 30 June 2012	3 months ended 30 June 2011	Increase/ (decrease) +/(–)	6 months ended 30 June 2012	6 months ended 30 June 2011	Increase/ (decrease) +/(–)
	(a)	(b)	(a) – (b)	(a)	(b)	(a) – (b)
Revenue	23,915	23,187	3	41,257	45,417	(9)
Cost of sales	(13,104)	(17,392)	(25)	(24,491)	(33,820)	(28)
Gross Profit	10,811	5,795	87	16,766	11,597	45
Other operating income	-	261	(100)	373	501	(26)
Selling and distribution expenses	(968)	(171)	466	(1,389)	(462)	201
Administrative expenses	(5,781)	(4,858)	19	(9,770)	(8,840)	11
Other operating expenses	(107)	(256)	(58)	(314)	(305)	3
Profit from operations	3,955	771	413	5,666	2,491	127
Financial income	22	10	120	42	22	91
Financial expenses	(1,364)	(1,039)	31	(3,057)	(1,868)	64
Profit/(Loss) before income tax	2,613	(258)	n.m	2,651	645	311
Income tax	(704)	(522)	35	(729)	(542)	35
Profit/ (Loss) for the period	1,909	(780)	n.m	1,922	103	1,766
Attributable to:						
Equity holders of the parent	2,241	(656)	n.m	2,395	498	381
Minority interest	(332)	(124)	168	(473)	(395)	20
Profit/(Loss) for the period	1,909	(780)	n.m	1,922	103	1,766
Earnings per share (RMB cents)						
- Basic (weighted average)	0.96	(0.28)		1.02	0.21	
- Fully diluted	0.96	(0.28)		1.02	0.21	

n.m – not meaningful.

Consolidation statement of Comprehensive income for the period

	Group			Group		
	RMB'000		(%)	RMB'000		(%)
	3 months ended 30 June 2012	3 months ended 30 June 2011	Increase/ (decrease) +/(–)	6 months ended 30 June 2012	6 months ended 30 June 2011	Increase/ (decrease) +/(–)
Profit/ (Loss) for the period	1,909	(780)	n.m	1,922	103	1,766
Other comprehensive income:						
Exchange difference on consolidation	-	-		-	-	
Other comprehensive income for the period, net of tax	1,909	(780)	n.m	1,922	103	1,766
Total comprehensive income attributable to :						
Equity holders of the parent, net of tax	2,241	(656)	n.m	2,395	498	381
Minority interest, net of tax	(332)	(124)	168	(473)	(395)	20
	1,909	(780)	n.m	1,922	103	1,766

Notes to Income Statement:

	Group		Group	
	RMB'000		RMB'000	
	3 months ended 30 June 2012	3 months ended 30 June 2011	6 months ended 30 June 2012	6 months ended 30 June 2011
Profit before tax is arrived at after charging / (crediting) :				
Interest income	22	9	42	21
Interest on borrowings	1,351	979	2,685	1,788
Foreign exchange (gain)/loss	4	51	52	58
Depreciation of property, plant and equipment	1,316	1,331	2,586	2,633
Amortization of deferred development costs	611	597	1,235	1,193
Amortization of lease prepayment	14	14	29	29
Loss on disposal of property, plant and equipment	-	65	1	65

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 2012 RMB'000	31 Dec 2011 RMB'000	30 Jun 2012 RMB'000	31 Dec 2011 RMB'000
Non-current assets					
Property, plant and equipment		67,920	69,537	8	12
Investment in subsidiaries		-	-	76,607	76,607
Lease prepayments		1,019	1,048	-	-
Intangible assets	(a)	165,523	166,758	-	-
Other receivables, prepayments and deposits		14,800	14,800	-	-
		249,262	252,143	76,615	76,619
Current assets					
Inventories		8,612	9,682	-	-
Trade and bills receivables		599	2,527	-	-
Other receivables, prepayments and deposits		68,194	67,677	6,998	6,944
Due from subsidiary (non-trade)		-	-	47,690	52,180
Cash and cash equivalents		8,969	18,205	1,047	452
		86,374	98,091	55,735	59,576
Total assets		335,636	350,234	132,350	136,195
Equity					
Share capital		144,975	144,975	144,975	144,975
Statutory reserves		18,810	18,810	-	-
Accumulated profits/(losses)		52,411	50,016	(13,849)	(11,780)
		216,196	213,801	131,126	133,195
Minority interests		15,073	15,546	-	-
Total equity		231,269	229,347	131,126	133,195
Non-current liabilities					
Deferred tax liabilities		15,057	15,096	-	-
		15,057	15,096	-	-
Current liabilities					
Trade and other payables		43,678	40,994	411	2,187
Secured bank loan		40,000	60,000	-	-
Due to related parties (non-trade)		4,860	4,770	813	813
Current tax payable		772	27	-	-
		89,310	105,791	1,224	3,000
Total liabilities		104,367	120,887	1,224	3,000
Total equity and liabilities		335,636	350,234	132,350	136,195

Notes:

- (a) Intangible assets comprise mainly of Deferred Development Cost with carrying value of RMB6,508,000. (At 31/12/2011: RMB7,738,000) and Product Development in Progress of RMB159,015,000 (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 30 June 2012		As at 31 December 2011	
	Secured	Unsecured	Secured	Unsecured
	RMB'000	RMB'000	RMB'000	RMB'000
Bank Loan	40,000	-	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) 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

Group	RMB'000		RMB'000	
	3 months ended 30 June 2012	3 months ended 30 June 2011	6 months ended 30 June 2012	6 months ended 30 June 2011
Cash flow from operating activities				
Profit/(Loss) before income tax	2,613	(258)	2,651	645
Adjustments for:				
Amortisation of deferred development costs	611	597	1,235	1,193
Amortisation of lease prepayment	14	14	29	29
Depreciation of property, plant and equipment	1,316	1,331	2,586	2,633
Loss on disposal of property, plant and equipment	-	65	1	65
Interest expense	1,351	979	2,685	1,788
Interest income	(22)	(9)	(42)	(21)
Operating profit before working capital changes	5,883	2,719	9,145	6,332
Changes in working capital:				
Inventories	538	5,092	1,070	1,889
Trade and bills receivables	908	(2,410)	1,928	(2,537)
Other receivables, prepayments and deposits	1,097	15,382	(517)	4,229
Trade and other payables	1,350	(5,936)	2,684	(6,650)
Cash generated from operations	9,776	14,847	14,310	3,263
Income tax paid	(17)	(769)	(23)	(813)
Net cash generated from operating activities	9,759	14,078	14,287	2,450
Cash flows from investing activities				
Payments for product development in progress	-	(104)	-	(104)
Purchase of property, plant and equipment	(780)	(9,764)	(970)	(10,396)
Prepayment for plant and equipment	-	(691)	-	(2,119)
Interest received	22	9	42	21
Net cash used in investing activities	(758)	(10,550)	(928)	(12,598)
Cash flows from financing activities				
Advances from related parties	120	-	90	135
Repayment of bank loan	(20,000)	-	(20,000)	-
Interest paid	(1,351)	(979)	(2,685)	(1,788)
Net cash used in financing activities	(21,231)	(979)	(22,595)	(1,653)

Net (decrease)/increase in cash and cash equivalents	(12,230)	2,549	(9,236)	(11,801)
Cash and cash equivalents at beginning of the period	21,199	5,705	18,205	20,055
Cash and cash equivalents at end of the period	8,969	8,254	8,969	8,254

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
At 1 January 2011	144,975	18,810	61,555	225,340	16,456	241,796
Total comprehensive income/(loss) for the period	-	-	498	498	(395)	103
At 30 June 2011	144,975	18,810	62,053	225,838	16,061	241,899
At 1 January 2012	144,975	18,810	50,016	213,801	15,546	229,347
Total comprehensive income/(loss) for the period	-	-	2,395	2,395	(473)	1,922
At 30 June 2012	144,975	18,810	52,411	216,196	15,073	231,269

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	-	(2,197)	(2,197)
At 30 June 2011	144,975	(6,625)	138,350
At 1 January 2012	144,975	(11,780)	133,195
Total comprehensive loss for the period	-	(2,069)	(2,069)
At 30 June 2012	144,975	(13,849)	131,126

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 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		Group	
	3 months ended 30 June 2012	3 months ended 30 June 2011	6 months ended 30 June 2012	6 months ended 30 June 2011
Net Profit/(Loss) for the period (RMB'000)	2,241	(656)	2,395	498
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)	0.96	(0.28)	1.02	0.21
(b) On a fully diluted basis (in RMB cents)	0.96	(0.28)	1.02	0.21

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	
	6 months ended 30 June 2012	Year ended 31 December 2011	6 months ended 30 June 2012	Year ended 31 December 2011
Net asset value per ordinary share capital at the end of the period (in RMB cents)	98.80	97.96	56.00	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

The Group turned around with net profit attributable to equity holders of RMB2.2 million in 2Q2012 from a loss of RMB0.7 million in 2Q2011. This was on margin expansion and revenue of RMB23.9 million in 2Q2012 which grew 3% from RMB23.2 million in 2Q2012.

Revenue

Group revenue rose 3% to RMB23.9 million in 2Q2012 supported by growth in demand for cardiovascular drugs and cerebrovascular drugs and other specialized drugs.

	3 months ended 30 June 2012	3 months ended 30 June 2011	Change		6 months ended 30 June 2012	6 months ended 30 June 2011	Change	
	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	%	RMB'000
Antibiotics	12,095	12,813	(6)	(718)	20,156	26,871	(25)	(6,715)
Cardiovascular drugs and cerebrovascular drugs	391	309	27	82	595	596	(0)	(1)
Other specialized drugs	11,391	8,364	36	3,027	20,468	16,249	26	4,219
TCM R&D	38	1,701	(98)	(1,663)	38	1,701	(98)	(1,663)
Total	23,915	23,187	3	728	41,257	45,417	(9)	(4,160)

Demand for the Group's major products, antibiotics, fell 6% to RMB12.1 million in 2Q2012 as the Group continued to be adversely affected by 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 Aztreonam for Injection and Sulbactam Sodium for Injection. Antibiotics was the largest revenue contributor, accounting for 51% of Group revenue in 2Q2012.

Cardiovascular drugs and cerebrovascular drugs sales rose 27% to RMB0.4 million due to the increase in demand for the Group's Vinpocetine for Injection products.

Other specialized drugs sales increased 36% to RMB11.4 million in 2Q2012 on higher demand for Potassium Sodium Dehydroandrographolide Succinate for Injection and Bocobal Mecobalamin Injection. Other specialized drugs constituted 48% of Group revenue in 2Q2012, making it the second largest revenue contributor.

TCM (Traditional Chinese Medicine) R&D business posted RMB38k in revenue in 2Q2011 from sales of preliminary R&D results for an upfront fee.

Profitability

Gross profit increased 87% to RMB10.8 million in 2Q2012 mainly on the lower prices of some antibiotics raw materials.

Selling and distribution expenses rose 466% to RMB1.0 million as the Group strengthened its sales teams in preparation for new product launch and embarked on brand building initiatives to enhance customer awareness and attract new customers through sales promotion and advertisements.

Administrative expenses rose 19% to RMB5.8 million due to the higher cost of insurance, staff welfare and travelling expenses.

Other expenses dropped 58% to RMB0.1 million on reduced losses on disposal of property, plant and equipment from dismantled old plant.

Finance income increased 120% to RMB22k due to increased interest income earned on higher bank fixed deposits.

Finance expenses rose 31% to RMB1.4 million on higher bank interest and charges.

Income tax increased 35% to RMB0.7 million due to higher taxable profits.

As a result of the above, the Group turned around in 2Q2012 with net profit attributable to equity holders of RMB2.2 million in 2Q2012 from a loss of RMB0.7 million in 2Q2011.

Financial Position

(30 June 2012 vs. 31 December 2011)

Non-current assets fell from RMB252.1 million to RMB249.3 million. Property, plant and equipment decreased from RMB69.5 million to RMB67.9 million due to depreciation and disposal of fixed assets. Intangibles assets dropped from RMB166.8 million to RMB165.5 million as a result of amortization.

Current assets decreased from RMB98.1 million to RMB86.4 million on lower inventories, trade receivables and cash balances. Inventories level fell from RMB9.7 million to RMB8.6 million on greater inventory controls. Trade & bills receivables fell from RMB2.5 million to RMB0.6 million due to better debt collections. Other receivables, prepayments and deposits rose from RMB67.7 million to RMB68.2 million due to increased of other receivables from operations. Cash and bank balances decreased from RMB18.2 million to RMB9.0 million due to RMB20 million repayments in bank loan in 2Q2012.

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

Current liabilities fell from RMB105.8 million to RMB89.3 million. Trade and other payables increased from RMB41.0 million to RMB43.7 million due to receipt in advance from client and purchase of raw materials. Secured bank loan dropped from RMB60 million to RMB40 million on RMB20 million loan repayment.

Cash Flow Statement

The Group's net cash inflow from operating activities in 1H2012 was RMB14.3 million. This was mainly due to the Group's usual operating business. The net cash inflow of RMB 9.8 million in 2Q2012 was mainly due to collection of other receivables and increased trade payable from usual operating business.

Net cash used in from investing activities in 1H2012 was RMB 0.9 million and 2Q2012 was RMB0.8 million. This was primarily due to the payment for new machinery and equipment in order to improve productivity.

The Group's net cash outflow from financing activities in 1H2012 was RMB22.6million and 2Q2012 was RMB21.2 million. This was mainly due to the repayment of RMB20-million of bank loans in 2Q2012.

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'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 Second Quarter Results of the Group for the financial period ended 30 June 2012 to be false or misleading in any material aspect.

By Order of the Board

Wong Kai
Chairman
13 August 2012