



STAR

STAR PHARMACEUTICAL LIMITED

Registration No. 200500429W

UNAUDITED HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2013

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 2013 (a)	3 months ended 30 June 2012 (b)	Increase/ (decrease) +/(–) (a) – (b)	6 months ended 30 June 2013 (a)	6 months ended 30 June 2012 (b)	Increase/ (decrease) +/(–) (a) – (b)
Revenue	20,453	23,915	(14)	40,667	41,257	(1)
Cost of sales	(14,139)	(13,104)	8	(26,242)	(24,491)	7
Gross Profit	6,314	10,811	(42)	14,425	16,766	(14)
Other operating income	209	-	100	1,105	373	196
Selling and distribution expenses	(1,499)	(968)	55	(2,616)	(1,389)	88
Administrative expenses	(5,391)	(5,781)	(7)	(10,630)	(9,770)	9
Other operating expenses	(859)	(107)	703	(1,342)	(314)	327
(Loss)/Profit from operations	(1,226)	3,955	n.m.	942	5,666	(83)
Financial income	64	22	191	78	42	86
Financial expenses	(215)	(1,364)	(84)	(633)	(3,057)	(79)
(Loss)/Profit before income tax	(1,377)	2,613	n.m.	387	2,651	(85)
Income tax	(120)	(704)	(83)	(363)	(729)	(50)
(Loss)/Profit for the period	(1,497)	1,909	n.m.	24	1,922	(99)
Attributable to:						
Equity holders of the parent	(1,211)	2,241	n.m.	640	2,395	(73)
Minority interest	(286)	(332)	(14)	(616)	(473)	30
(Loss)/Profit for the period	(1,497)	1,909	n.m.	24	1,922	(99)
Earnings per share (RMB cents)						
- Basic (weighted average)	(0.52)	0.96		0.27	1.02	
- Fully diluted	(0.52)	0.96		0.27	1.02	

n.m – not meaningful.

Consolidation statement of Comprehensive income for the period

	Group			Group		
	RMB'000		(%)	RMB'000		(%)
	3 months ended 30 June 2013	3 months ended 30 June 2012	Increase/ (decrease) +/(-)	6 months ended 30 June 2013	6 months ended 30 June 2012	Increase/ (decrease) +/(-)
(Loss)/Profit for the period	(1,497)	1,909	n.m.	24	1,922	(99)
Other comprehensive income:						
Exchange difference on consolidation	-	-		-	-	
Other comprehensive income for the period, net of tax	(1,497)	1,909	n.m.	24	1,922	(99)
Total comprehensive income attributable to :						
Equity holders of the parent, net of tax	(1,211)	2,241	n.m.	640	2,395	(73)
Minority interest, net of tax	(286)	(332)	(14)	(616)	(473)	30
	(1,497)	1,909	n.m.	24	1,922	(99)

Notes to Income Statement:

	Group		Group	
	RMB'000		RMB'000	
	3 months ended 30 June 2013	3 months ended 30 June 2012	6 months ended 30 June 2013	6 months ended 30 June 2012
(Loss)/Profit before tax is arrived at after charging / (crediting) :				
Interest income	51	22	65	42
Interest on borrowings	207	1,351	615	2,685
Foreign exchange (gain)/loss	(13)	4	(13)	52
Depreciation of property, plant and equipment	2,455	1,316	4,893	2,586
Amortization of deferred development costs	554	611	1,203	1,235
Amortization of lease prepayment	14	14	28	29
Loss on disposal of property, plant and equipment	2	-	2	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	
		30 Jun 2013 RMB'000	31 Dec 2012 RMB'000	30 Jun 2013 RMB'000	31 Dec 2012 RMB'000
Non-current assets					
Property, plant and equipment		58,328	59,343	2	4
Investment property		3,170	3,285	-	-
Investment in subsidiaries		-	-	76,607	76,607
Lease prepayments		962	990	-	-
Intangible assets	(a)	31,668	32,357	-	-
Deferred tax assets		1,576	1,352	-	-
		95,704	97,327	76,609	76,611
Current assets					
Inventories		12,143	10,779	-	-
Trade and bills receivables		1,555	1,527	-	-
Other receivables, prepayments and deposits		32,228	48,127	52	48
Due from subsidiary (non-trade)		-	-	44,050	46,150
Cash and bank balances		14,445	31,638	73	1,301
		60,371	92,071	44,175	47,499
Total assets		156,075	189,398	120,784	124,110
Equity					
Share capital		144,975	144,975	144,975	144,975
Statutory reserves		18,810	18,810	-	-
Accumulated losses		(69,497)	(70,137)	(25,430)	(23,753)
		94,288	93,648	119,545	121,222
Minority interests		613	1,229	-	-
Total equity		94,901	94,877	119,545	121,222
Non-current liabilities					
Deferred tax liabilities		2,415	2,454	-	-
		2,415	2,454	-	-
Current liabilities					
Trade and other payables		42,696	44,978	426	2,075
Secured bank loan		10,000	40,000	-	-
Due to related parties (non-trade)		5,386	5,351	813	813
Income tax payable		677	1,738	-	-
		58,759	92,067	1,239	2,888
Total liabilities		61,174	94,521	1,239	2,888
Total equity and liabilities		156,075	189,398	120,783	124,110

Notes:

- (a) Intangible assets comprise mainly of Deferred Development Cost with carrying value of RMB4,086,000. (At 31/12/2012: RMB5,289,000) and Product Development in Progress of RMB27,582,000 (At 31/12/2012: RMB27,068,000).

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 2013		As at 31 December 2012	
	Secured	Unsecured	Secured	Unsecured
	RMB'000	RMB'000	RMB'000	RMB'000
Bank Loan	10,000 [*]	-	40,000 [*]	-

Details of any collateral:

^{*} The bank loan was secured on property, plant and equipment, investment property and land use rights with carrying amounts of RMB53.2 million (2012: RMB57.2 million), RMB3.2 million (2012: RMB3.3 million) and RMB 1.0 million (2012: RMB1.0 million) respectively. The interest was charged at a 6.6% (2012:6.6%) per annum.

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 2013	3 months ended 30 June 2012	6 months ended 30 June 2013	6 months ended 30 June 2012
Cash flow from operating activities				
(Loss)/Profit before income tax	(1,377)	2,613	387	2,651
Adjustments for:				
Amortisation of deferred development costs	554	611	1,203	1,235
Amortisation of lease prepayment	14	14	28	29
Government grants, net	1,177	-	874	-
Depreciation of property, plant and equipment	2,455	1,316	4,893	2,586
Depreciation of investment property	58	-	115	-
Loss on disposal of property, plant and equipment	2	-	2	1
Interest expense	207	1,351	615	2,685
Interest income	(51)	(22)	(65)	(42)
Operating profit before working capital changes	3,039	5,883	8,052	9,145
Changes in working capital:				
Inventories	(1,813)	538	(1,364)	1,070
Trade and bills receivables	13	908	(28)	1,928
Other receivables, prepayments and deposits	1,863	1,097	305	(517)
Trade and other payables	(633)	1,350	(3,154)	2,684
Cash generated from operations	2,469	9,776	3,811	14,310
Income tax paid	(1,688)	(17)	(1,688)	(23)
Net cash generated from operating activities	781	9,759	2,123	14,287
Cash flows from investing activities				
Payments for product development in progress	(514)	-	(514)	-
Purchase of property, plant and equipment	(3,699)	(780)	(3,880)	(970)
Prepayment for plant and equipment	619	-	(407)	-
Advances for product manufacturing rights and technical know-how	-	-	(11,000)	-
Refund of deposit from potential investment	9,000	-	27,000	-
Interest received	51	22	65	42
Net cash generated / (used in) from investing activities	5,457	(758)	11,264	(928)

Cash flows from financing activities				
Advances from related parties	35	120	35	90
Repayment of bank loan	(10,000)	(20,000)	(30,000)	(20,000)
Interest paid	(207)	(1,351)	(615)	(2,685)
Net cash used in financing activities	(10,172)	(21,231)	(30,580)	(22,595)
Net (decrease) in cash and cash equivalents	(3,934)	(12,230)	(17,193)	(9,236)
Cash and cash equivalents at beginning of the period	18,379	21,199	31,638	18,205
Cash and cash equivalents at end of the period	14,445	8,969	14,445	8,969

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 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
At 1 January 2013	144,975	18,810	(70,137)	93,648	1,229	94,877
Total comprehensive income/(loss) for the period	-	-	640	640	(616)	24
At 30 June 2013	144,975	18,810	(69,497)	94,288	613	94,901

Company	Share capital	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000
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
At 1 January 2013	144,975	(23,753)	121,222
Total comprehensive loss for the period	-	(1,677)	(1,677)
At 30 June 2013	144,975	(25,430)	119,545

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 2013.

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 2012: 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 2012.

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 2013 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 2013	3 months ended 30 June 2012	6 months ended 30 June 2013	6 months ended 30 June 2012
Net (loss)/profit attributable to equity shareholders for the period (RMB'000)	(1,211)	2,241	640	2,395
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)	(0.52)	0.96	0.27	1.02
(b) On a fully diluted basis (in RMB cents)	(0.52)	0.96	0.27	1.02

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 2013	Year ended 31 December 2012	6 months ended 30 June 2013	Year ended 31 December 2012
Net asset value per ordinary share capital at the end of the period (in RMB cents)	40.53	40.52	51.06	51.78

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 posted a 14% drop in revenue to RMB20.5 million in 2Q2013 as it faced continued pressure from the PRC government price intervention and inflationary cost pressures. Mainly due to this and the higher costs of sales as well as increased sales and marketing spending, the Group ended the quarter with a net loss attributable to equity holders of RMB1.2 million in 2Q2013.

Revenue

Group revenue fell 14% to RMB20.5 million in 2Q2013 owing to lower antibiotics and other specialized drug sales.

	3 months ended 30 June 2013	3 months ended 30 June 2012	Change		6 months ended 30 June 2013	6 months ended 30 June 2012	Change	
	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	%	RMB'000
Antibiotics	9,189	12,095	(24)	(2,906)	18,516	20,156	(8)	(1,640)
Cardiovascular drugs and cerebrovascular drugs	728	391	86	337	1,169	595	96	574
Other specialized drugs	10,158	11,391	(11)	(1,233)	20,604	20,468	1	136
TCM R&D	378	38	895	340	378	38	895	340
Total	20,453	23,915	(14)	(3,462)	40,667	41,257	(1)	(590)

Revenue from the Group's major products, antibiotics, dropped 24% to RMB9.2 million in 2Q2013 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 Azithromycin Aspartate for Injection. Antibiotics constituted 45% of Group revenue in 2Q2013, making it the second largest revenue contributor.

Cardiovascular drugs and cerebrovascular drugs sales jumped 86% to RMB0.7 million mainly due to increase in demand for the Group's Vinpocetine for Injection and Aceglutamide for Injection products.

Other specialized drugs sales fell 11% to RMB10.2 million in 2Q2013 on lower demand for Potassium Sodium Dehydroandrographolide Succinate for Injection and Amoxicillin and Dicloxacillin Sodium Tablets. Other specialized drugs remained the largest revenue contributor constituting 51% of Group revenue in 2Q2013.

TCM (Traditional Chinese Medicine) R&D business posted RMB0.4million in revenue in 2Q2013 from sales of preliminary R&D results for an upfront fee.

Profitability

Gross profit fell 42% to RMB6.3 million in 2Q2013 mainly on government's price intervention pressures and cost containment measures in a wide range of pharmaceutical products.

Other operating income rose 100% to RMB0.2 million in 2Q2013 due to higher amount of subsidy funds received from government for the implementation of new drug development.

Selling and distribution expenses rose 55% to RMB1.5 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 dropped 7% to RMB5.4 million as staff travelling and training expenses had been booked in 1Q2013.

Other expenses rose to 703% to RMB0.9 million. This was mainly due to the Group impaired RMB0.8 million of R&D projects from the products development in progress.

Finance income increased 191% to RMB64k due to increased interest income earned on higher bank fixed deposits.

Finance expenses fell 84% to RMB0.2 million as the Group paid down its bank loan from RMB40 million as of 30 June 2012 to RMB10 million as of 30 June 2013.

Tax expenses decreased due to lower taxable income and reversal of a FY2012 tax over-provision.

As a result, the Group incurred a net loss attributable to equity holders of RMB1.2 million in 2Q2013 compared to a net profit attributable to equity holders of RMB2.2 million in 2Q2012.

Financial Position

(30 June 2013 vs. 31 December 2012)

Non-current assets fell from RMB97.3 million to RMB95.7 million. Property, plant and equipment decreased from RMB59.3 million to RMB58.3 million due to depreciation. Intangibles assets dropped from RMB32.4 million to RMB31.7 million due to amortization.

Current assets dropped from RMB92.1 million to RMB60.4 million. Inventories level rose from RMB10.8 million to RMB12.1 million due to additional raw material purchases. Trade and bills receivables also remained at RMB1.5-million level (RMB1.56 million vs. RMB1.53 million). Other receivables, prepayments and deposits dropped from RMB48.1 million to RMB32.2 million due to the refund of RMB27 million in deposit after the discontinuation of the acquisition of a potential patent right and purchase certain medical know-how from third party research company, partially offset by an advance payment of RMB11 million to a third party company to develop two different types of drugs. Cash and bank balances decreased from RMB31.6 million to RMB14.4 million mainly due to the RMB30 million of bank loan repayment.

Non-current liabilities comprising deferred tax liabilities remained at approximately RMB2.4-million level.

Current liabilities fell from RMB92.1 million to RMB58.8 million. Trade and other payables dropped from RMB45.0 million to RMB42.7 million due to repayments. Secured bank loan dropped from RMB40 million to RMB10 million on loan repayment.

Cash Flow Statement

The Group's net cash inflow from operating activities in 1H2013 was RMB3.8 million. This was mainly due to the Group's usual operating business. The net cash inflow of RMB 2.5 million in 2Q2013 was mainly due to collection of other receivables from usual operating business.

Net cash generated from investing activities in 1H2013 amounted to RMB 11.3 million and 2Q2013 amounted to RMB5.5 million. This was primarily due to the refund of RMB18 million deposits from discontinued the R&D investments and RMB9 million discontinue purchase certain medical know-how but partially offset by an advance payment of RMB11 million to the third party research company to develop new medical products on behalf of the Group.

The Group's net cash outflow from financing activities in 1H2013 amounted to RMB30.6million and 2Q2013 amounted to RMB10.2 million. This was primarily due to the RMB30 million bank loan repayments in 1H2013 and RMB10 million repayment in 2Q2013.

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 remains cautious about its business prospects in 2013 due to the government's price intervention in a wide range of pharmaceutical products and the continued implementation of Drug Safety Supervision System Policies pose challenges.

To sustain long term growth, the Group will maintain continuous investments in its 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 2013 to be false or misleading in any material aspect.

By Order of the Board

Xu Zhi Bin
Executive Chairman
12 August 2013