



STAR

STAR PHARMACEUTICAL LIMITED

Registration No. 200500429W

UNAUDITED FIRST QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 2014

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 2014 (a)	3 months ended 31 March 2013 (b)	Increase/ (decrease) +/(–) (a) – (b)
Revenue	22,409	20,214	11
Cost of sales	(12,314)	(12,103)	2
Gross Profit	10,095	8,111	24
Other operating income	1,729	896	93
Selling and distribution expenses	(1,508)	(1,117)	35
Administrative expenses	(4,765)	(5,239)	(9)
Other operating expenses	(148)	(483)	(69)
Profit from operations	5,403	2,168	149
Finance income	134	14	857
Finance expenses	(19)	(418)	(95)
Profit before income tax	5,518	1,764	213
Income tax	(915)	(243)	277
Profit for the period	4,603	1,521	203
Attributable to:			
Equity holders of the Company	4,921	1,851	166
Minority interest	(318)	(330)	(4)
Profit for the period	4,603	1,521	203
Earnings per share (cents)			
- Basic	2.10	0.79	
- Diluted	2.10	0.79	

Consolidation statement of Comprehensive Income for the year

	Group		
	RMB'000		(%)
	3 months ended 31 March 2014	3 months ended 31 March 2013	Increase/ (decrease) +/-
Profit for the period	4,603	1,521	203
Other comprehensive income:			
Exchange difference on consolidation	-	-	
Other comprehensive income for the period, net of tax	4,603	1,521	203
Total comprehensive income attributable to :			
Equity holders of the period	4,921	1,851	166
Minority interest	(318)	(330)	(4)
	4,603	1,521	203

Notes to the Income Statement:

	Group	
	RMB'000	
	3 months ended 31 March 2014	3 months ended 31 March 2013
Profit before tax is arrived at after charging / (crediting) :		
Interest income	128	14
Interest on borrowings	8	408
Depreciation of property, plant and equipment	1,353	2,438
Amortization of deferred development cost	597	649
Amortization of lease prepayment	19	14

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 2014 RMB'000	31 Dec 2013 RMB'000	31 Mar 2014 RMB'000	31 Dec 2013 RMB'000
Non-current assets					
Property, plant and equipment		54,438	55,487	-	-
Investment property		2,997	3,055	-	-
Investment in subsidiaries		-	-	76,607	76,607
Lease prepayments		897	916	-	-
Intangible assets	(a)	6,123	6,720	-	-
Deferred tax assets		1,986	1,986	-	-
		66,441	68,164	76,607	76,607
Assets held for sale					
	(b)	31,511	29,705	-	-
Current assets					
Inventories		30,918	15,168	-	-
Trade and bills receivables		6,646	3,202	-	-
Other receivables, prepayments and deposits		24,353	19,713	48	25
Due from subsidiaries (non-trade)		-	-	40,350	42,850
Cash and bank balances		16,274	20,546	1,212	588
		78,191	58,629	41,610	43,463
Total assets					
		176,143	156,498	118,217	120,070
Equity					
Share capital		144,975	144,975	144,975	144,975
Statutory reserves		19,910	19,910	-	-
Accumulated losses		(62,612)	(67,533)	(28,342)	(27,656)
		102,273	97,352	116,633	117,319
Minority interests		152	470	-	-
Total equity		102,425	97,822	116,633	117,319
Non-current liabilities					
Deferred tax liabilities		260	279	-	-
		260	279	-	-
Liabilities held for sale					
	(b)	36,727	33,316	-	-
Current liabilities					
Trade and other payables		34,269	23,436	1,584	2,751
Income tax payable		2,462	1,645	-	-
		36,731	25,081	1,584	2,751
Total liabilities					
		73,718	58,676	1,584	2,751
Total equity and liabilities					
		176,143	156,498	118,217	120,070

Notes :

- (a) Intangible assets comprise mainly of Deferred Development Cost with carrying value of RMB2,285,000. (At 31/12/2013: RMB2,882,000) and Product Development in Progress of RMB3,838,000 (At 31/12/2013: RMB3,838,000) .

(b) Assets and liabilities held for sale

During the financial year of 2013, the Group was actively sourcing potential buyer and propose to sell its entire shareholding in Beida Shijia Technology Development Co.,Ltd (“Beida Shijia”) and Beijing Shijia JiuShengYuan Pharmaceutical Technology Co.Ltd (“JiuShengYuan”) to a third party.

As detailed in the Company’s proposed disposal announcement on 12 March 2014, the board of directors (the “Board”) of STAR Pharmaceutical Limited announced that the Company’s wholly-owned subsidiary, Hainan Star on 11 March 2014 entered into the sale and purchase agreements with Mr. Zhou Ya Wei (director for disposal group) for the disposal of its 14% equity interesting Jiu Sheng Yuan at consideration of RMB 1 in cash; and with Jin Merchants Alliance Holding Co., Ltd (the Purchaser”) for the net consideration of RMB 25,000,001 for:

- (i) The sale of 80% of the equity interest in Beida Shijia, being the entire equity interest in Beida Shijia held by Hainan Star;
- (ii) The sale of 46% of the equity interest in Jiu Sheng Yuan, being the remaining equity interest in Jiu Sheng Yuan held by Hainan Star after the disposal to Mr. Zhou Ya Wei as disclosed above.

The Proposed Disposal is a “major transaction” as defined in Rule 1014 of the Listing Manual. Accordingly, the approval of the Proposed Disposal by the Shareholders at the EGM on 30 April 2014 was required and all the resolutions set out in the Notice of EGM were duly passed. Completion of the disposal agreements are expected to complete during second quarter of 2014.

As such, all of the assets and liabilities in Beida Shijia and JiuShengYuan were reclassified to assets and liabilities held for sale since 31 December 2013. The accompanying Consolidated Balance Sheet at 31 March 2014 includes the following:

	31 March 2014	31 December 2013
	RMB’000	RMB’000
<u>Assets held for sale</u>		
Property, plant and equipment	486	529
Intangible assets	27,356	27,355
Inventories	116	123
Trade receivables	734	734
Other receivables, prepayments and deposits	658	703
Cash and bank balances	2,161	261
	31,511	29,705
<u>Liabilities held for sale</u>		
Trade and other payables	29,039	25,628
Due to related parties (non-trade)	5,372	5,372
Deferred tax liabilities	2,096	2,096
Secured bank loan	220	220
	36,727	33,316

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 2014		As at 31 December 2013	
	Secured	Unsecured	Secured	Unsecured
	RMB'000	RMB'000	RMB'000	RMB'000
Secured bank loan	-	-	-	-

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

<u>Group</u>	RMB'000	
	Period ended 31 March 2014	Period ended 31 March 2013
Cash flow from operating activities		
Profit before income tax	5,518	1,764
Adjustments for:		
Amortization of deferred development costs	597	649
Amortization of lease prepayments	19	14
Government grants, net	-	(303)
Depreciation of property, plant and equipment	1,353	2,438
Depreciation of investment property	58	57
Interest expense	8	408
Interest income	(128)	(14)
Operating profit before working capital changes	7,425	5,013
Changes in working capital:		
Inventories	(15,743)	449
Trade and bills receivables	(3,444)	(41)
Other receivables and prepayments and deposits	(3,159)	(1,558)
Trade and other payables	14,245	(2,521)
Cash (used in) / generated from operations	(676)	1,342
Income tax paid	(118)	-
Net cash (used in) / generated from operating activities	(794)	1,342
Cash flows from investing activities		
Purchase of property, plant and equipment	(261)	(181)
Prepayments for plant and equipment	(317)	(1,026)
Advances for product manufacturing rights and technical know-how	(1,120)	(11,000)

Refund of deposit from potential investment	-	18,000
Interest received	128	14
Net cash (used in) / generated from investing activities	(1,570)	5,807
Cash flows from financing activities		
Repayment of bank loan	-	(20,000)
Interest paid	(8)	(408)
Net cash used in financing activities	(8)	(20,408)
Net decrease in cash and cash equivalents	(2,372)	(13,259)
Cash and cash equivalents included in assets held for sale	261	-
Cash and cash equivalents at beginning of the period	20,546	31,638
Cash and cash equivalents at end of the period	18,435	18,379

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 2013	144,975	18,810	(70,137)	93,648	1,229	94,877
Total comprehensive income for the period	-	-	1,851	1,851	(330)	1,521
At 31 March 2013	144,975	18,810	(68,286)	95,499	899	96,398
At 1 January 2014	144,975	19,910	(67,533)	97,352	470	97,822
Total comprehensive income for the period	-	-	4,921	4,921	(318)	4,603
At 31 March 2014	144,975	19,910	(62,612)	102,273	152	102,425

Company	Share capital	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2013	144,975	(23,753)	121,222
Total comprehensive loss for the period	-	(1,042)	(1,042)
At 31 March 2013	144,975	(24,795)	120,180
At 1 January 2014	144,975	(27,656)	117,319
Total comprehensive loss for the period	-	(686)	(686)
At 31 March 2014	144,975	(28,342)	116,633

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 2014.

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 2013: 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 2013.

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 2014 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 2014	3 months ended 31 March 2013
Net Amount attributable to equity shareholders for the period (RMB'000)	4,921	1,851
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)	2.10	0.79
(b) On a fully diluted basis (in RMB cents)	2.10	0.79

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 2014	Year ended 31 December 2013	3 months ended 31 March 2014	Year ended 31 December 2013
Net asset value per ordinary share capital at the end of the period (in RMB cents)	43.75	41.78	49.82	50.11

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 achieved a 166% jump to RMB4.9 million in net profit attributable to equity holders on 11% rise in revenue, improved profit margins from other specialized drugs, effective cost controls and lower finance expenses in 1Q2014.

Revenue

Group revenue increased 11% to RMB22.4 million in 1Q2014 supported by stronger sales team and higher sales of cardiovascular drugs and cerebrovascular drugs as well as other specialized drugs.

	3 months ended 31 March 2014	3 months ended 31 March 2013	Change	
	RMB'000	RMB'000	%	RMB'000
Antibiotics	8,506	9,327	(9)	(821)
Cardiovascular drugs and cerebrovascular drugs	614	441	39	173
Other specialized drugs	13,289	10,446	27	2,843
Total	22,409	20,214	11	2,195

Antibiotics sales softened 9% to RMB8.5 million in 1Q2014. This is mainly due to lower demand for the Group's Azithromycin Aspartate for Injection and Aztreonam for Injection. Antibiotics accounted for 38% of Group revenue in 1Q2014, making it the second largest revenue contributor.

Cardiovascular drugs and cerebrovascular drugs sales jumped 39% to RMB0.6 million boosted by increases in the sales of Vinpocetine for Injection. Cardiovascular drugs and cerebrovascular drugs represented 3% of Group revenue in 1Q2014.

Other specialized drugs sales rose 27% to RMB13.3 million in 1Q2014 on higher demand for Potassium Sodium Dehydroandrographolide for Injection, Amoxicillin and Dicloxacillin Sodium Tablets and Water-soluble Vitamin for Injection. Other specialized drugs remained the largest revenue contributor constituting 59% of Group revenue in 1Q2014.

Profitability

Gross profit increased 24% to RMB10.1 million in 1Q2014 mainly on higher revenue and the continuous efforts in reviewing its production processes also yielded improvements in product quality and sales performance.

Other operating income increased 93% to RMB1.7 million due to the RMB0.8 million earned from subcontracting service provided for the manufacturing pharmaceutical products in 1Q2014.

Selling and distribution expenses rose 35% to RMB1.5 million on strengthening of sales force and marketing and branding activities. Administrative expenses dropped 9% to RMB4.8 million as the Group managed to keep operating expenses in check.

Other expenses dived 69% to RMB0.1 million in 1Q2014 on lower R&D expenditure.

Finance income jumped 857% to RMB0.1 million as higher fixed deposit balance generated more interest income.

Finance expenses declined 95% to RMB0.02 million as bank loan was fully paid off in November 2013 from RMB20 million as of 31 March 2013 to nil as of 31 March 2014.

Tax expenses increase due to higher taxable income.

As a result, the Group achieved a 166% increase in net profit attributable to equity holders from RMB1.6 million in 1Q2013 to RMB4.9 million in 1Q2014.

Financial Position

(31 March 2014 vs. 31 December 2013)

Non-current assets fell from RMB68.2 million to RMB66.4 million. Property, plant and equipment decreased from RMB55.5 million to RMB54.4 million due to depreciation. Intangibles assets dropped from RMB6.7 million to RMB6.1 million due to amortization.

Assets held for sales comprise the assets of Beida Shijia Technology Development Co.,Ltd (“Beida Shijia”) and Beijing Shijia JiuShengYuan Pharmaceutical Technology Co.Ltd (“JiuShengYuan”) which the Group intends to dispose of.

Current assets increased from RMB58.6 million to RMB78.2 million. Inventories level rose from RMB15.2 million to RMB30.9 million due to additional raw material purchases to support higher demand and subcontracting manufacturing services. Trade & bills receivables increased from RMB3.2 million to RMB6.6 million on higher bills receivables from daily operations. Other receivables, prepayments and deposits increased from RMB19.7 million to RMB24.4 million due to an advance payment of RMB1.1 million to a third party company to develop the new medical product. Cash and bank balances decreased from RMB20.5 million to RMB16.3 million mainly due to the additional inventory stock-up to support for subcontracting manufacturing services and advance deposits for medical know-how.

Non-current liabilities comprising deferred tax liabilities remained at approximately RMB0.3million level.

Liabilities held for sales comprise the liabilities of Beida Shijia Technology Development Co.,Ltd (“Beida Shijia”) and Beijing Shijia JiuShengYuan Pharmaceutical Technology Co.Ltd (“JiuShengYuan”) which the Group intends to dispose of.

Current liabilities increased from RMB58.7 million to RMB73.7 million. Trade and other payables increased from RMB23.4 million to RMB34.3 million due to additional purchases of raw materials.

Cash Flow Statement

The Group’s net cash outflow from operating activities in 1Q2014 was RMB0.8 million. This was mainly due to the additional material purchase to support subcontracting manufacturing services and bill receivable from Group’s usual operating business.

Net cash used in investing activities in 1Q2014 amounted to RMB 1.6 million. This was primarily due to the advance deposit of RMB1.1 million to the third party research company to develop new medical product on behalf of the Group.

The Group’s net cash outflow from financing activities in 1Q2014 amounted to RMB 8 thousand. This was primarily due the bank loan has been fully repaid in November 2013.

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 remains cautious about its business prospects for the rest of 2014 due to regulatory and market uncertainties.

To sustain long term growth, the Group will continue to drive revenue expansion and operational efficiency. The Group will also 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 First Quarter Results of the Group for the financial period ended 31 March 2014 to be materially false or misleading in any material aspect.

By Order of the Board

Xu Zhi Bin
Executive Chairman
15 May 2014