



STAR

STAR PHARMACEUTICAL LIMITED

Registration No. 200500429W

UNAUDITED THIRD QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2019

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 September 2019	3 months ended 30 September 2018	Increase/ (decrease) +/-	9 months ended 30 September 2019	9 months ended 30 September 2018	Increase/ (decrease) +/-
	(a)	(b)	(a) – (b)	(a)	(b)	(a) – (b)
	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)	
Revenue	65,250	51,458	27	277,698	156,064	78
Cost of sales	(32,479)	(13,941)	133	(87,170)	(37,115)	135
Gross Profit	32,771	37,517	(13)	190,528	118,949	60
Other operating income	284	583	(51)	1,798	2,057	(13)
Selling and distribution expenses	(24,922)	(31,016)	(20)	(179,331)	(95,058)	89
Administrative expenses	(9,719)	(6,411)	52	(19,488)	(15,986)	22
Other operating expenses	(3,187)	(1,155)	176	(5,932)	(2,088)	184
(Loss)/profit from operations	(4,773)	(482)	890	(12,425)	7,874	n.m.
Financial income	521	115	353	1,524	202	654
Financial expenses	1,442	2,126	(32)	1,445	2,715	(47)
(Loss)/profit before income tax	(2,810)	1,759	n.m.	(9,456)	10,791	n.m.
Income tax	(149)	(2,026)	(93)	(2,513)	(1,063)	136
(Loss)/profit for the period	(2,959)	(267)	1008	(11,969)	9,728	n.m.
Attributable to equity holders of the Company	(2,959)	(267)	1008	(11,969)	9,728	n.m.
(Losses)/earnings per share (RMB cents)						
- Basic	(6.45)	(0.58)		(26.03)	20.94	
- Diluted	(6.45)	(0.58)		(26.03)	20.94	

n.m – not meaningful.

Consolidation statement of Comprehensive income for the period

	Group			Group		
	RMB'000		(%)	RMB'000		(%)
	3 months ended 30 September 2019 (Unaudited)	3 months ended 30 September 2018 (Unaudited)	Increase/ (decrease) +/(-)	9 months ended 30 September 2019 (Unaudited)	9 months ended 30 September 2018 (Unaudited)	Increase/ (decrease) +/(-)
(Loss)/profit for the period	(2,959)	(267)	1008	(11,969)	9,728	n.m
Other comprehensive income:						
Exchange difference on consolidation	-	-	-	-	-	-
Other comprehensive (loss)/income for the period, net of tax	(2,959)	(267)	1008	(11,969)	9,728	n.m.
Total comprehensive (loss)/income attributable to equity holders of the period	(2,959)	(267)	1008	(11,969)	9,728	n.m.

Notes to Income Statement:

1.	Group		Group	
	RMB'000		RMB'000	
	3 months ended 30 September 2019 (Unaudited)	3 months ended 30 September 2018 (Unaudited)	9 months ended 30 September 2019 (Unaudited)	9 months ended 30 September 2018 (Unaudited)
Profit before tax is arrived at after charging / (crediting) :				
Interest income	521	115	1,524	202
Foreign exchange gain	(1,419)	(2,132)	(1,445)	(2,735)
Depreciation of property, plant and equipment	1,561	1,551	4,985	4,285
Depreciation of investment property	173	173	518	519
Amortization of intangible assets	340	707	1,019	707
Amortization of lease prepayment	18	19	52	54
Loss on disposal of property, plant and equipment	-	-	830	117

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.

	Group		Company	
	30 September 2019	31 Dec 2018	30 September 2019	31 Dec 2018
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Non-current assets				
Property, plant and equipment	39,034	42,456	-	-
Investment property	11,083	11,601	9,354	9,700
Investment in subsidiary	-	-	76,607	76,607
Lease prepayments	486	538	-	-
Intangible assets	10,929	6,898	-	-
Refundable deposits	40,777	25,120	-	-
Deferred tax assets	6,274	6,274	-	-
Financial assets, at FVPL	_*	_*	-	-
	108,583	92,887	85,961	86,307
Current assets				
Inventories	101,914	53,208	-	-
Trade and bills receivables	47,778	34,816	-	-
Other receivables, prepayments and deposits	10,912	4,873	-	14
Financial assets, at FVPL	22,100	-	-	-
Cash and bank balances	57,240	87,070	52,884	55,429
	239,944	179,967	52,884	55,443
Total assets	348,527	272,854	138,845	141,750
Equity				
Share capital	144,975	144,975	144,975	144,975
Treasury Shares	(775)	(409)	(775)	(409)
Statutory reserves	23,740	23,740	-	-
Accumulated losses	(34,218)	(22,249)	(6,562)	(4,840)
Total equity	133,722	146,057	137,638	139,726
Current liabilities				
Trade and other payables	214,805	126,797	1,207	2,024
	214,805	126,797	1,207	2,024
Total liabilities	214,805	126,797	1,207	2,024
Total equity and liabilities	348,527	272,854	138,845	141,750

*Amount less than RMB1,000.

1(b)(ii) Aggregate amount of group's borrowings and debt securities.

	As at 30 September 2019		As at 31 December 2018	
	Secured	Unsecured	Secured	Unsecured
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
(a) Amount repayable in one year or less, or on demand	-	-	-	-
(b) Amount repayable after one year	-	-	-	-

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 30 September

<u>Group</u>	RMB'000		RMB'000	
	3 months ended 30 September 2019	3 months ended 30 September 2018	9 months ended 30 September 2019	9 months ended 30 September 2018
Cash flow from operating activities				
(Loss)/profit before income tax	(2,810)	1,759	(9,456)	10,791
Adjustments for:				
Amortisation of intangible assets	340	707	1,019	707
Amortisation of lease prepayment	18	19	52	54
Depreciation of property, plant and equipment	1,561	1,551	4,985	4,285
Depreciation of investment property	173	173	518	519
Loss on disposal of property, plant and equipment	-	-	830	117
Interest income	(521)	(115)	(1,524)	(202)
Operating (loss)/profit before working capital changes	(1,239)	4,094	(3,576)	16,271
Changes in working capital:				
Inventories	(40,156)	425	(48,706)	(38,400)
Trade and bills receivables	7,296	(4,039)	(12,962)	(4,653)
Other receivables, prepayments and deposits	(351)	1,087	(6,039)	(14,051)
Trade and other payables	47,747	7,313	88,703	60,988
Cash generated from operations	13,297	8,880	17,420	20,155

Income tax paid	(2,832)	-	(3,208)	-
Net cash generated from operating activities	10,465	8,880	14,212	20,155
Cash flows from investing activities				
Purchase of property, plant and equipment	(811)	(1,461)	(2,468)	(1,619)
Purchase of product development in progress	(5,050)	(3,302)	(5,050)	(5,189)
Prepayment for plant and equipment	-	(453)	-	(453)
Proceeds from disposal of property, plant and equipment	-	-	75	3
Payment of deposits for product manufacturing rights and technical know-how	(14,130)	-	(15,657)	(14,565)
Proceeds from disposal of product development in progress	-	3,000	-	3,000
Refund of deposits from third party research and development vendors	-	4,500	-	4,500
Purchase of financial assets at FVPL	(17,000)	(2,000)	(100,100)	(7,000)
Proceeds from disposal of financial assets at FVPL	27,000	-	78,000	-
Interest received	521	115	1,524	202
Net cash (used in)/generated from investing activities	(9,470)	399	(43,676)	(21,121)
Cash flows from financing activities				
Purchase of treasury shares	-	(116)	(366)	(116)
Net cash used in financing activities	-	(116)	(366)	(116)
Net increase/(decrease) in cash and cash equivalents	995	9,163	(29,830)	(1,082)
Cash and cash equivalents at beginning of the period	56,245	58,716	87,070	68,961
Cash and cash equivalents at end of the period	57,240	67,879	57,240	67,879

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	Treasury Shares	Statutory reserves	Accumulated (losses)/profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	144,975	(293)	22,669	(32,641)	134,710
Purchase of treasury shares	-	(116)	-	-	(116)
Total comprehensive income for the period	-	-	-	9,728	9,728
At 30 September 2018	144,975	(409)	22,669	(22,913)	144,322
At 1 January 2019	144,975	(409)	23,740	(22,249)	146,057
Purchase of treasury shares	-	(366)	-	-	(366)
Total comprehensive loss for the period	-	-	-	(11,969)	(11,969)
At 30 September 2019	144,975	(775)	23,740	(34,218)	133,722

<u>Company</u>	Share capital	Treasury share	Accumulated losses	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	144,975	(293)	(3,790)	140,892
Purchase of treasury shares	-	(116)	-	(116)
Total comprehensive loss for the period	-	-	(616)	(616)
At 30 September 2018	144,975	(409)	(4,406)	140,160
At 1 January 2019	144,975	(409)	(4,840)	139,726
Purchase of treasury shares	-	(366)	-	(366)
Total comprehensive loss for the period	-	-	(1,722)	(1,722)
At 30 September 2019	144,975	(775)	(6,562)	137,638

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. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed 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.

The number of issued ordinary shares (excluding treasury shares) of the Company was as follows:

<u>Issued and Paid-Up Capital</u>	Number of Shares
As at 30 September 2018 (unaudited)	46,335,699
As at 30 September 2019 (unaudited)	45,875,199

Movements in the Company's issued share capital (excluding treasury shares) during the period ended 30 September 2019 were as follows:

	<u>Number of shares</u>
Balance as at 1 January 2019	46,335,699
Shares buy back and held as treasury shares	(460,500)
Balance as at 30 September 2019	<u>45,875,199</u>

During the financial period ended 30 September 2019, the Company purchased a total of 460,500 shares (30 September 2018: 156,000 shares) of its ordinary shares by way of on-market purchase. These shares were held as treasury shares and presented as a component with shareholders' equity.

Save as disclosed above, there have been no bonus or other issues of shares during the period.

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.

	9 months ended 30 September 2019	Year ended 31 December 2018
Total number of issued shares excluding treasury shares	45,875,199	46,335,699

The total number of issued shares excluding treasury shares of the Company is 45,875,199 at the financial period ended 30 September 2019.

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.

The Company acquired 460,500 of its own shares in open market during the current financial period. These shares are held as treasury shares.

Movements in the Company's treasury shares during the period ended 30 September 2019 were as follows:

<u>Group and Company</u>	Number of Shares
Balance as at 1 January 2019	489,300
Shares buy back during the current financial period	460,500
Balance as at 30 September 2019	949,800

1(d)(v) A statement showing all sales, transfer, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.

During the financial period, there was no transaction pertaining to subsidiary holdings.

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 2018.

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 2019 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 2019	3 months ended 30 September 2018	9 months ended 30 September 2019	9 months ended 30 September 2018
Net amount attributable to equity shareholders for the period (RMB'000)	(2,959)	(267)	(11,969)	9,728
No. of ordinary shares used in calculation of basic earnings per share	45,875,199	46,407,764	45,979,197	46,463,413
(Losses)/earnings per ordinary share of the group, based on net (loss)/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)	(6.45)	(0.58)	(26.03)	20.94
(b) On a fully diluted basis (in RMB cents)	(6.45)	(0.58)	(26.03)	20.94

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	
	9 months ended 30 September 2019	Year ended 31 December 2018	9 months ended 30 September 2019	Year ended 31 December 2018
Net asset value per ordinary share capital at the end of the period (in RMB cents)	291.5	315.2	300.0	301.6
Number of shares (in issued)	45,875,199	46,335,699	45,875,199	46,335,699

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

In 3Q2019, the Group recorded net loss attributable to equity holders of RMB3.0 million and on revenue was RMB65.3 million.

Revenue

Group revenue increased 27% from RMB51.5 million in 3Q2018 to RMB65.3 million in 3Q2019 due to increase sales on other specialized drugs and partially offset by the decrease of sales on Antibiotics and Cardiovascular drugs and Cerebovascular drugs.

	3 months ended 30 September 2019	3 months ended 30 September 2018	Change		9 months ended 30 September 2019	9 months ended 30 September 2018	Change	
	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	%	RMB'000
Antibiotics	4,024	6,791	(41)	(2,767)	18,626	24,415	(24)	(5,789)
Cardiovascular drugs and cerebrovascular drugs	1,339	1,697	(21)	(358)	5,378	4,763	13	615
Other specialized drugs	59,887	42,970	39	16,917	253,694	126,886	100	126,808
Total	65,250	51,458	27	13,792	277,698	156,064	78	121,634

Antibiotics sales decreased 41% from RMB6.8 million in 3Q2018 to RMB4 million in 3Q2019 due to lower sales for Aztreonam for Injection and Sulbactam Sodium for Injection. Antibiotics accounted for 6% of Group revenue in 3Q2019 versus of 13% in 3Q2018.

Cardiovascular drugs and cerebrovascular drugs sales decreased 21% to RMB1.3 million in 3Q2019 due to less sales of Vinpocetine for Injection. Cardiovascular drugs and cerebrovascular drugs represented 2% of Group revenue in 3Q2019 versus of 3% in 3Q2018.

Other specialized drug increased 39% from RMB43 million in 3Q2018 to RMB59.9 million in 3Q2019 mainly caused by higher sales of Acetylcysteine Solution for Inhalation and Torasemide for Injection which partially offset with the decrease of sales of Potassium Sodium Dehydroandrographolide Succinate for Injection and Amoxicillin and Dicloxacillin Sodium Tablets. Other specialized drugs represented 92% of Group revenue in 3Q2019 versus of 84% in 3Q2018.

Profitability

Gross profit decreased 13% from RMB37.5 million in 3Q2018 to RMB32.8 million in 3Q2019 mainly due to lower sales volume and gross profit margin of sales revenues. The gross profit margin decreased from 73% in 3Q2018 to 50% in 3Q2019 mainly due to drop of drugs' selling price and increase of raw material costs of drugs during 3Q2019.

Other operating income decreased from RMB0.6 million in 3Q2018 to RMB0.3 million in 3Q2019 mainly caused by lower rental income received in 3Q2019.

Selling and distribution expenses decreased 20% from RMB31 million in 3Q2018 to RMB24.9 million in 3Q2019 mainly due to decrease of selling and distribution expenses in line with decrease of sales volume.

Administrative expenses increased from RMB6.4 million in 3Q2018 to RMB9.7 million in 3Q2019 mainly due to increase of consistency evaluation expenses for drugs and bad debt provision for receivables.

Other expenses raised 176% from RMB1.2 million in 3Q2018 to RMB3.2 million in 3Q2019 mainly due to increase of research and development costs in 3Q2019.

Finance income increase from RMB0.1 million in 3Q2018 to RMB0.5 million in 3Q2019 due to higher interest income received from financial assets at FVPL during the quarter.

Finance expenses reduced from RMB2.1 million income in 3Q2018 to RMB1.4 million income in 3Q2019 mainly due to less exchange gain in 3Q2019.

Tax expenses reduced from RMB2 million in 3Q2018 to RMB0.1 million in 3Q2019 due to record of net loss during the period.

Overall, the Group recorded a net loss attributable to equity holders of RMB3 million in 3Q2019 compared with a net loss of RMB0.3 million in 3Q2018.

Financial Position
(30 September 2019 vs. 31 December 2018)

Non-current assets increased from RMB92.9 million to RMB108.6 million. Property, plant and equipment decreased from RMB42.5 million to RMB39 million mainly due to depreciation charges. Intangibles assets increased from RMB6.9 million to RMB10.9 million due to additional intangible assets of RMB5.1 million and amortization charges for the period. Refundable deposits increased to RMB40.8 million due to new prepayments of RMB15.7 million to third party R&D vendors.

Current assets increased from RMB180 million to RMB240 million. Inventories level raised from RMB53.2 million to RMB101.9 million due to increase of raw material, work-in progress and finished good values. Trade & bills receivables increased from RMB34.8 million to RMB47.8 million was in line with the increase of sales revenue. Other receivables, prepayments and deposits increase from RMB4.9 million to RMB10.9 million mainly due to the increase of prepayments to raw material suppliers. Financial assets at FVPL increased by RMB22.1 million during this financial period. Cash and bank balances decreased from RMB87.1 million to RMB57.2 million mainly caused by purchase in financial assets at FVPL.

Current liabilities increased from RMB126.8 million to RMB214.8 million. Trade payables increased from RMB14.0 million to RMB82.8 million due to increase of inventory level and trade payable level to vendors. Other payables increased from RMB112.8 million to RMB132 million was mainly caused by the amount due to distributors for selling and distribution expenses.

Cash Flow Statement

The Group's net cash inflow from operating activities in 3Q2019 was RMB10.5 million. This was mainly due to the higher level of trade and other payables and lower level of trade receivables in 3Q2019.

Net cash used in investing activities in 3Q2019 amounted to RMB9.5 million. This was mainly caused by the payment for additional intangible assets and new prepayments to third party R&D vendors during 3Q2019.

No net cash movement in financing activities in 3Q2019.

As a result, the net cash inflow in 3Q2019 was RMB1 million.

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 implementation of the purchase-with-target-quantity policy and new reference-drug-list catalogue for chemical generic drug policy continue affect the revenue and profit of the pharmaceutical industry in China.

To face these challenges, the Group will keep high cautions attitude to deal with them and continue to invest in R&D for new drugs to the 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:

No.

(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 or recommended for the current period reported due to loss position of the Company.

- 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.**

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000)
Hainan Selection Pharmaceutical Co., Ltd.	RMB1,159,548	Nil

The value of IPT of the Group is below 3% of the Group's latest net tangible assets as at 30 September 2019.

The Company has no general mandate from shareholders for interested person transactions.

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

To the best of our knowledge, nothing has come to the attention of the Board of Directors which may render the unaudited financial statements of the Group for the Third Quarter ended 30 September 2019 to be false or misleading in any material aspect.

- 15. Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1).**

The Company hereby confirms that it has procured undertakings from all its directors and executive officers under Rule 720(1) of the Listing Manual.

By Order of the Board

Xu Zhi Bin
Executive Chairman
13 November 2019