



STAR

STAR PHARMACEUTICAL LIMITED

Registration No. 200500429W

UNAUDITED HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2008

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 2008 (a)	3 months ended 30 June 2007 (b)	Increase/ (decrease) +/(–) (a) – (b)	6 months ended 30 June 2008 (a)	6 months ended 30 June 2007 (b)	Increase/ (decrease) +/(–) (a) – (b)
Revenue	30,784	25,819	19	57,094	68,058	(16)
Cost of sales	(14,238)	(15,056)	(5)	(27,969)	(27,052)	3
Gross Profit	16,546	10,763	54	29,125	41,006	(29)
Other income	174	444	(61)	589	1,210	(51)
Selling and distribution expenses	(3,659)	(2,636)	39	(7,514)	(4,591)	64
Administrative expenses	(7,592)	(5,264)	44	(14,457)	(9,337)	55
Other expenses	(708)	(2,536)	(72)	(1,031)	(2,773)	(63)
Profit from operations	4,761	771	518	6,712	25,515	(74)
Financial income	581	259	124	2,051	862	138
Financial expenses	(1,412)	(3,220)	(56)	(3,316)	(5,436)	(39)
Profit/(Loss) before taxation	3,930	(2,190)	n.m	5,447	20,941	(74)
Taxation	(481)	(387)	24	(1,053)	(1,943)	(46)
Profit/(Loss) for the period	3,449	(2,577)	n.m	4,394	18,998	(77)
Attributable to:						
Equity holders of the parent	2,346	(2,564)	n.m	4,062	18,855	(78)
Minority interest	1,103	(13)	n.m	332	143	132
Profit/(Loss) for the period	3,449	(2,577)	n.m	4,394	18,998	(77)
Earnings per share (RMB cents)						
- Basic (weighted average)	1.0	(1.1)		1.7	8.1	
- Fully diluted	1.0	(1.1)		1.7	8.1	

n.m – not meaningful.

Notes to the Income Statement:

	Group		Group	
	RMB'000		RMB'000	
	3 months ended 30 June 2008	3 months ended 30 June 2007	6 months ended 30 June 2008	6 months ended 30 June 2007
Profit before tax includes the following:				
Other income including Value Added Tax ("VAT") refund	174	444	589	1,210
Interest income	581	260	2,051	863
Interest on borrowings	5	811	12	1,290
Foreign exchange loss	474	2,392	757	2,612
Dividend on RCPS	1,407	1,650	3,304	3,387
Depreciation and amortization expenses	1,986	3,105	4,225	5,410
Amortization of RCPS transaction cost	379	379	759	759

1(b)(i) A balance sheet (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-08 RMB'000	31 Dec-07 RMB'000	30 Jun-08 RMB'000	31 Dec-07 RMB'000
Non-current assets					
Property, plant and equipment		45,522	48,079	47	37
Investments in subsidiaries		-	-	76,607	76,607
Lease prepayments		1,248	1,276	-	-
Intangible assets	(a)	242,650	243,399	-	-
		289,420	292,754	76,654	76,644
Current assets					
Inventories		23,902	17,178	-	-
Trade and bills receivables		8,584	5,918	-	-
Other receivables, prepayments and deposits		29,728	28,231	23,212	23,186
Due from subsidiaries (non-trade)		-	-	149,421	149,421
Due from related parties		3,223	2,293	-	-
Cash and cash equivalents		164,756	199,728	16,344	27,872
		230,193	253,348	188,977	200,479
Total assets		519,613	546,102	265,631	277,123
Equity					
Share capital		144,975	144,975	144,975	144,975
Reserves		15,948	15,948	-	-
Accumulated profits/(losses)		119,318	115,256	(22,916)	(16,190)
		280,241	276,179	122,059	128,785
Minority interests		31,508	31,176	-	-
Total equity		311,749	307,355	122,059	128,785

Non-current liabilities					
Redeemable Convertible Cumulative Preference Shares	(b)	136,266	135,507	136,266	135,451
Deferred tax liabilities		15,343	15,372	-	-
		151,609	150,879	136,266	135,451
Current liabilities					
Trade and other payables		44,511	37,937	1,395	3,366
Secured bank loan		-	30,000	-	-
Due to related parties		7,525	11,644	2,607	2,607
Redeemable Convertible Cumulative Preference Shares (current portion)	(b)	3,304	6,858	3,304	6,914
Current tax payable		915	1,429	-	-
		56,255	87,868	7,306	12,887
Total liabilities		207,864	238,747	143,572	148,338
Total equity and liabilities		519,613	546,102	265,631	277,123

Notes :

- (a) Intangible assets comprise mainly of Deferred Development Cost with carrying value of RMB10,546,000. (At 31/12/2007: RMB11,504,000) and Product Development in Progress of RMB212,922,000 (At 31/12/2007: RMB212,713,000) and Goodwill of RMB19,182,000 (At 31/12/2007: RMB19,182,000).
- (b) The Company issued and allotted 46,668,000 Redeemable Convertible Cumulative Preference Shares (“RCPS”) on 29 December 2006, at a subscription price of S\$0.60 for each RCPS to various subscribers, successfully raising net proceeds of S\$26.5 million, after the deduction of issuing expense of S\$1.5 million.

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 2008		As at 31 December 2007	
	Secured RMB’000	Unsecured RMB’000	Secured RMB’000	Unsecured RMB’000
Bank Loan	-	-	30,000*	-
Redeemable Convertible Cumulative Preference Shares	-	3,304	-	6,858

Amount repayable after one year

	As at 30 June 2008		As at 31 December 2007	
	Secured RMB’000	Unsecured RMB’000	Secured RMB’000	Unsecured RMB’000
Redeemable Convertible Cumulative Preference Shares	-	136,266	-	135,507

Details of any collateral:

* The bank loan of RMB30 million as at 31 December 2007 was secured over Hainan STAR’s assets

1(c) A cash flow statement (for the Group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

<u>Group</u>	RMB'000	
	6 months ended 30 June 2008	6 months ended 30 June 2007
Cash flow from operating activities		
Profit before tax	5,447	20,941
Adjustments for:		
Amortization of deferred development costs	1,214	1,561
Amortization of lease prepayment	28	64
Amortization of RCPS transaction cost	759	759
Loss on disposal of property, plant and equipment	1,120	-
Depreciation of property, plant and equipment	2,983	3,785
Interest expense	12	1,290
Interest income	(2,051)	(863)
Dividend on RCPS	3,304	3,387
Operating profit before working capital changes	12,816	30,924
Changes in working capital:		
Inventories	(6,724)	(3,918)
Trade and bills receivables	(2,666)	2,200
Other receivables, prepayments and deposits	(1,497)	130,106
Trade and other payables	6,316	3,236
Cash generated from operations	8,245	162,548
Income tax paid	(1,567)	(2,397)
Net cash generated from operating activities	6,678	160,151
Cash flows from investing activities		
Payments for product development in progress	(465)	(10,732)
Purchase of property, plant and equipment	(1,546)	(5,806)
Deposit for potential investment	-	(9,056)
Fixed Deposit	-	(7,863)
Interest received	2,051	863
Net cash generated (used in) investing activities	40	(32,594)
Cash flows from financing activities		
Advances from related parties	-	10,228
Advances from bank loan	-	30,000
Repayment to related parties	(4,821)	-
Repayment of bank loan	(30,000)	-
Dividend Paid	-	(15,203)
Repayment of RCPS interest	(6,857)	-
Interest paid	(12)	(1,551)
Net cash (used in) /generated from financing activities	(41,690)	23,474

Net (decrease)/increase in cash and cash equivalents	(34,972)	151,031
Cash and cash equivalents at beginning of the period	199,728	63,887
Cash and cash equivalents at end of the period	164,756	214,918

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.

<u>Group</u>	Share capital	Statutory surplus reserve	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 2007	144,975	12,225	113,750	270,950	30,166	301,116
Acquisition of subsidiaries	-	-	-	-	35,961	35,961
Net profit for the period	-	-	18,855	18,855	143	18,998
Dividend Paid	-	-	(15,203)	(15,203)	-	(15,203)
Transfer	-	-	23,922	23,922	(23,922)	-
At 30 June 2007	144,975	12,225	141,324	298,524	42,348	340,872
At 1 January 2008	144,975	15,948	115,256	276,179	31,176	307,355
Net profit for the period	-	-	4,062	4,062	332	4,394
At 30 June 2008	144,975	15,948	119,318	280,241	31,508	311,749

<u>Company</u>	Share capital	Accumulated profit / losses	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2007	144,975	16,758	161,733
Net loss for the period	-	(8,150)	(8,150)
Dividend Paid	-	(15,203)	(15,203)
At 30 June 2007	144,975	(6,595)	138,380
At 1 January 2008	144,975	(16,190)	128,785
Net loss for the period	-	(6,726)	(6,726)
At 30 June 2008	144,975	(22,916)	122,059

- 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.**

On 15 February 2006, the Company launched its initial public offering (“IPO”). Total 46,825,000 ordinary shares were issued to the public. As a result of the Amendments, as at the date of our invitation, our Company has an issued and paid-up capital of S\$14,984,227, comprising 187,300,000 ordinary shares of no par value and has no authorized share capital.

As at 31 December 2006, the issued and paid-up capital of the Company was RMB 144,975,729 comprising 234,125,000 ordinary shares.

The Company issued and allotted 46,668,000 RCPS on 29 December 2006, at a subscription price of S\$0.60 for each RCPS to various subscribers, successfully raising net proceeds of S\$26.5 million. The RCPS are convertible to 46,668,000 ordinary shares at a conversion ratio of 1 RCPS to 1 Conversion Share at any time during the 5-year period from the issue date to the maturity date (i.e. 28 December 2011), subject to adjustment in the event of, amongst other things, the Company not attaining the target net profit before tax of RMB120 million for financial year 2009. A cumulative preference dividend of 5% will be payable on an annual basis to the RCPS holders.

- 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 2007: 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 2007.

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 2008 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 2008	3 months ended 30 June 2007	6 months ended 30 June 2008	6 months ended 30 June 2007
Net profit / loss for the period (RMB'000)	2,346	(2,564)	4,062	18,855
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)	1.00	(1.1)	1.73	8.1
(b) On a fully diluted basis (in RMB cents)	1.00	(1.1)	1.73	8.1

- For the financial period ended 30 June 2008, the diluted earnings per share is the same as the basic earnings per share as the effects of the RCPS is anti-dilutive.

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	
	6 months ended 30 June 2008	Year ended 31 December 2007	6 months ended 30 June 2008	Year ended 31 December 2007
Net asset value per ordinary share capital at the end of the period (in RMB cents)	133.2	131.3	52.1	55.0

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's strategic foray into the vibrant TCM (Traditional Chinese Medicine)-formulated drug market in 2006 began to yield robust results in the second quarter ended 30 June 2008 ("2Q08"). This new growth pillar swelled 1,036% to RMB4.9 million in TCM R&D revenue in 2Q08. This fueled a strong turnaround in Group net profit attributable to equity holders to RMB2.3 million in 2Q08 (from a loss of RMB2.6 million in 2Q07) on 19% growth in Group revenue to RMB30.8 million. Solid performance was despite the challenging operating conditions of escalating production costs, regulatory reforms of the PRC pharmaceutical industry and lackluster export market afflicting the sector into 2Q08.

Revenue

Group revenue rose 19% from RMB25.8 million in 2Q07 to RMB30.8 million in 2Q08. Growth was buoyed by strong revenues from other specialized drugs and budding TCM R&D even as the pharmaceutical industry in the PRC continued to be weighed down by ongoing restructuring and consolidation led by regulatory reforms initiated by the PRC authorities to improve transparency and healthcare industry structure, and the uninspiring exports plagued by general negative foreign perceptions after a series of counterfeit drug scandals involving other drug-makers in the PRC.

	3 months ended 30 June 2008	3 months ended 30 June 2007	Change		6 months ended 30 June 2008	6 months ended 30 June 2007	Change	
	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	%	RMB'000
Antibiotics	17,441	17,996	(3)	(555)	35,096	45,327	(23)	(10,231)
Cardiovascular drugs and cerebrovascular drugs	1,946	2,337	(17)	(391)	5,119	9,833	(48)	(4,714)
Other specialized drugs	6,512	5,056	29	1,456	11,856	11,487	3	369
TCM R&D	4,885	430	1,036	4,455	5,023	1,411	256	3,612
Total	30,784	25,819	19	4,965	57,094	68,058	(16)	(10,964)

Antibiotics sales dipped 3% to RMB17.4 million in 2Q08 on lower sales of Cefoperazone Sodium and Azithromycin Aspartate. This was beset by drop in average antibiotics selling price due to government price control on antibiotics. Nevertheless, antibiotics remained the largest revenue contributor, accounting for 57% of Group revenue in 2Q08.

Sales of cardiovascular drugs and cerebrovascular drugs continued to take a toll, slipping 17% to RMB1.9 million in 2Q08. This was owing to the drop in export sales of major product, Cerebroprotein Hydrolysate, due to scandals of bogus drugs from other medicine manufacturers in the PRC, which affected general foreign perception of drugs produced in the PRC.

Other specialized drugs sales rose 29% to RMB6.5 million in 2Q08 supported by increase in sales of major product, Potassium Sodium Dehydroandrographolide Succinate.

Revenue from the nascent TCM R&D segment - upfront fee and share of future profit from preliminary TCM R&D results - surged a resounding 11.4 times to RMB4.9 million in 2Q08. As the Group made successful inroad into the TCM market, revenue climbed to 16% of Group revenue in 2Q08 (2Q07: 2%), enabling the Group to achieve greater diversification in its earnings.

Profitability

Gross profit rallied 54% from RMB10.8 million in 2Q07 to RMB16.5 million in 2Q08 underpinned by higher sales and change in product mix as TCM R&D revenue and profitability soared and drug sales decreased. Group gross margin expanded from 41.7% in 2Q07 to 53.7% in 2Q08 as higher TCM sales and margin more than offset the impacts of lower selling prices of antibiotics and higher raw material prices for producing drugs.

Selling and distribution expenses rose from RMB2.6 million in 2Q07 to RMB3.7 million in 2Q08 due to increased sales and promotion activities and staff force.

Administrative expenses increased from RMB5.3 million in 2Q07 to RMB7.6 million in 2Q08. This was due to higher salary, welfare and insurance expenses as new staff were hired to support the Group's expansion plans, as well as higher depreciation & amortization expenses and R&D activity expenses.

Financial income of RMB0.6 million comprised interest income. Financial expenses fell from RMB3.2 million in 2Q07 to RMB1.4 million in 2Q08 mainly due to no loan interest occurred.

Minority interest reversed from negative RMB13,000 in 2Q07 to a positive RMB1.1 million in 2Q08 due to strong performances from 60%-owned TCM subsidiaries, Beida Shijia and Shijia Jiushengyuan.

Overall, Group net profit attributable to equity holders reversed from a loss of RMB2.6 million in 2Q07 to profit of RMB3.4 million in 2Q08.

Financial Position

(30 June 2008 vs. 31 December 2007)

Total non-current assets fell from RMB292.8 million to RMB289.4 million. Property, plant and equipment decreased from RMB48.1 million to RMB45.5 million due to depreciation. Intangibles assets also moderated from RMB243.4 million to RMB242.7 million as a result of amortization and disposal of some of the intangible assets.

Current assets declined from RMB253.3 million to RMB230.2 million. Inventories increased from RMB17.2 million to RMB23.9 million. Trade & bills receivables rose from RMB5.9 million to RMB8.6 million due to delay of payments from certain customers. Other receivables, prepayments and deposits increased from RMB28.2 million to RMB29.7 million. Cash and cash equivalents fell from RMB199.7 million to RMB164.8 million as the Group repaid RMB30.0 million in bank loans in 1Q08 and distributed the first RCPS interest of S\$1.4 million in 2Q08.

Current liabilities fell from RMB87.9 million to RMB56.3 million. Trade and other payables rose from RMB37.9 million to RMB44.5 million due to accrual of staff bonus as provided in the IPO Prospectus and increased costs of raw materials. Bank loan of RMB30.0 million was fully repaid in 1Q08 leaving no further bank loan outstanding as of 30 June 2008. Amount due to related parties also declined from RMB11.6 million to RMB7.5 million due to repayment.

Non-current liabilities rose from RMB150.9 million to RMB151.6 million due to increased RCPS balance led by accrued interest and amortization of transaction costs.

- 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

Having delivered concrete progress, the Group is optimistic of the promising potentials of its emerging modern TCM segment, and expects to see more robust contributions from this thriving market segment going forward. The Group will draw upon its strong showing and R&D to size up the growth momentum. It aims to intensify its R&D efforts to advance its pipeline of innovative modern TCM products and enhance its TCM core competency.

The Group is currently awaiting government approval to launch 3 new drugs this year. One of them is Category I TCM drug, Yanning Capsules (used as adjunct therapy to improve immune function of patients with tumor) which had successfully completed phase III clinical trials in FY2007. Applications to SFDA for production of TCM formulated drugs, Da Qing Long Granules and Gan Ju Qing Yan Granules (used for treatment of throat infection and respiratory tract infections respectively) were made in FY2007 and pending approvals. 14 new TCM-formulated drugs at various stages of development at the Group's TCM research subsidiaries, Beida Shijia and Shijia Jiushengyuan, are expected to continue to make further progress this year.

The Group plans to rise above the challenges of rising costs by continuing to scale up its high margin businesses, enhance product quality and R&D, upgrade manufacturing facilities and warehouse, extend sales & marketing efforts, and increase productivity to achieve better returns. The Group also believes the current blips of the soft export market and domestic market restructuring to be well cushioned by positive long-term prospects of the PRC healthcare industry due to ageing population, improving standard of living, government-led promotion of the healthcare industry and increasing popularity of TCM as treatment for common ailments. The Group also expects to benefit from the increased barrier of entry from stricter policies and implementation of GMP requirements to weed out shady drug manufacturers.

In FY2007, the Group entered into a MOU for the potential acquisition of Elite View Group Limited which engages in the brand development, management & distribution of consumer products in the health, beauty & lifestyle segment through its subsidiary Hannah Holdings Pte. Ltd. based in Singapore. The potential acquisition will be funded with proceeds raised from the RCPS issued in December 2006. The Group has completed financial and legal due diligence on Elite View Group Limited and is currently discussing the potential acquisition. Further announcement will be issued to inform investors and shareholders at an appropriate time.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

Ordinary Shares:

No.

RCPS:

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

RCPS:

NIL

(c) Date payable

Ordinary Shares:

Not applicable.

RCPS:

Not applicable.

(d) Book Closure Date

Ordinary Shares:

Not applicable.

RCPS:

Not applicable.

12. If no dividend has been declared/recommend, a statement to that effect.

No dividend has been declared and recommended.

13. 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 2008 to be false or misleading in any material respect.

By Order of the Board

**Wong Kai
Chairman**

**Gong Tonglin
Director**

14 August 2008