



STAR STAR PHARMACEUTICAL LIMITED

Registration No. 200500429W

UNAUDITED THIRD QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 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 September 2008 | 3 months ended 30 September 2007 | Increase/ (decrease) +/(–) | 9 months ended 30 September 2008 | 9 months ended 30 September 2007 | Increase/ (decrease) +/(–) |
| | (a) | (b) | (a) – (b) | (a) | (b) | (a) – (b) |
| | (Unaudited) | | | (Unaudited) | | |
| Revenue | 31,096 | 31,474 | (1) | 88,190 | 99,532 | (11) |
| Cost of sales | (20,203) | (13,367) | 51 | (48,172) | (40,419) | 19 |
| Gross Profit | 10,893 | 18,107 | (40) | 40,018 | 59,113 | (32) |
| Other income | 7,894 | 534 | 1,378 | 8,483 | 1,397 | 507 |
| Selling and distribution expenses | (1,893) | (2,154) | (12) | (9,407) | (6,745) | 39 |
| Administrative expenses | (7,193) | (6,112) | 18 | (21,650) | (15,449) | 40 |
| Other expenses | (648) | (37) | 1,651 | (1,679) | (2,463) | (32) |
| Profit from operations | 9,053 | 10,338 | (12) | 15,765 | 35,853 | (56) |
| Financial income | 1,858 | 1,744 | 7 | 3,909 | 2,606 | 50 |
| Financial expenses | (1,547) | (2,861) | (46) | (4,863) | (8,297) | (41) |
| Profit before taxation | 9,364 | 9,221 | 2 | 14,811 | 30,162 | (51) |
| Taxation | (561) | (416) | 35 | (1,614) | (2,359) | (32) |
| Profit for the period | 8,803 | 8,805 | 0 | 13,197 | 27,803 | (53) |
| Attributable to: | | | | | | |
| Equity holders of the parent | 9,220 | 6,221 | 48 | 13,282 | 25,076 | (47) |
| Minority interest | (417) | 2,584 | n.m | (85) | 2,727 | n.m |
| Profit for the period | 8,803 | 8,805 | 0 | 13,197 | 27,803 | (53) |
| Earnings per share (RMB cents) | | | | | | |
| - Basic (weighted average) | 3.94 | 2.66 | | 5.67 | 10.71 | |
| - Fully diluted | 1.22 | 2.66 | | 4.11 | 10.71 | |

n.m – not meaningful.

Notes to the Income Statement:

| | Group | | Group | |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | RMB'000 | | RMB'000 | |
| | (Unaudited) | | (Unaudited) | |
| Profit before tax is arrived at after charging / (crediting) : | 3 months ended 30 September 2008 | 3 months ended 30 September 2007 | 9 months ended 30 September 2008 | 9 months ended 30 September 2007 |
| Interest income | (1,858) | (1,744) | (3,909) | (2,606) |
| Interest on borrowings | 5 | 1,143 | 17 | 3,192 |
| Foreign exchange (gain)/loss | (7,128) | (347) | (6,371) | 2,265 |
| Dividend on RCPS | 1,542 | 1,718 | 4,846 | 5,105 |
| Depreciation and amortization expenses | 2,508 | 3,671 | 6,733 | 9,081 |
| Amortization of RCPS transaction cost | 380 | 379 | 1,139 | 1,138 |
| Loss on disposal of fixed assets | 26 | - | 1,146 | - |

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- Sep-08 | 31 Dec-07 | 30- Sep-08 | 31 Dec-07 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | (Unaudited) | (Audited) | (Unaudited) | (Audited) |
| Non-current assets | | | | | |
| Property, plant and equipment | | 47,403 | 48,079 | 43 | 37 |
| Investments in subsidiaries | | - | - | 76,607 | 76,607 |
| Lease prepayments | | 1,233 | 1,276 | - | - |
| Intangible assets | (a) | 242,138 | 243,399 | - | - |
| | | 290,774 | 292,754 | 76,650 | 76,644 |
| Current assets | | | | | |
| Inventories | | 21,431 | 17,178 | - | - |
| Trade and bills receivables | | 9,413 | 5,918 | - | - |
| Other receivables, prepayments and deposits | | 33,887 | 28,231 | 23,168 | 23,186 |
| Due from subsidiaries (non-trade) | | - | - | 149,421 | 149,421 |
| Due from related parties | | 3,223 | 2,293 | - | - |
| Cash and cash equivalents | | 155,878 | 199,728 | 14,242 | 27,872 |
| | | 223,832 | 253,348 | 186,831 | 200,479 |
| Total assets | | 514,606 | 546,102 | 263,481 | 277,123 |
| Equity | | | | | |
| Share capital | | 144,975 | 144,975 | 144,975 | 144,975 |
| Reserves | | 15,948 | 15,948 | - | - |
| Accumulated profits/(losses) | | 128,538 | 115,256 | (18,628) | (16,190) |

| | | | | | |
|---|-----------|----------------|----------------|----------------|----------------|
| | | 289,461 | 276,179 | 126,347 | 128,785 |
| Minority interests | | 31,091 | 31,176 | - | - |
| Total equity | | 320,552 | 307,355 | 126,347 | 128,785 |
| Non-current liabilities | | | | | |
| Redeemable Convertible Cumulative Preference Shares | (b) & (c) | - | 135,507 | - | 135,507 |
| Deferred tax liabilities | | 15,328 | 15,372 | - | - |
| | | 15,328 | 150,879 | - | 135,507 |
| Current liabilities | | | | | |
| Trade and other payables | | 36,422 | 37,937 | 763 | 3,366 |
| Secured bank loan | | - | 30,000 | - | - |
| Due to related parties | | 7,324 | 11,644 | 2,607 | 2,607 |
| Redeemable Convertible Cumulative Preference Shares (current portion) | (b) & (c) | 133,764 | 6,858 | 133,764 | 6,858 |
| Current tax payable | | 1,216 | 1,429 | - | - |
| | | 178,726 | 87,868 | 137,134 | 12,831 |
| Total liabilities | | 194,054 | 238,747 | 137,134 | 148,338 |
| Total equity and liabilities | | 514,606 | 546,102 | 263,481 | 277,123 |

Notes :

- (a) Intangible assets comprise mainly of Deferred Development Cost with carrying value of RMB10,034,000. (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.
- (c) Pursuant to the formal requisitions made in August 2008 by several RCPS Holders, the Company had convened the RCPS Class Meeting in September 2008 whereby the RCPS Holders have approved, inter alia, the maturity date for the RCPS be amended and brought forward from 29 December 2011 to a date to be fixed as soon as all legal and regulatory approvals are received by the Company, estimated to be between 30 September 2008 and 31 December 2008.

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

Amount repayable in one year or less, or on demand

| | 30 September 2008 | | As at 31 December 2007 | |
|---|--------------------|----------------------|------------------------|----------------------|
| | Secured RMB’000 | Unsecured RMB’000 | Secured RMB’000 | Unsecured RMB’000 |
| | (Unaudited) | | (Audited) | |
| Bank Loan | - | - | 30,000* | - |
| Redeemable Convertible Cumulative Preference Shares | - | 133,764 | - | 6,858 |

Amount repayable after one year

| | 30 September 2008 | | As at 31 December 2007 | |
|---|--------------------|----------------------|------------------------|----------------------|
| | Secured RMB'000 | Unsecured RMB'000 | Secured RMB'000 | Unsecured RMB'000 |
| | (Unaudited) | | (Audited) | |
| Redeemable Convertible Cumulative Preference Shares | - | - | - | 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 | |
|--|-------------------------------------|-------------------------------------|
| | 9 months ended 30 September 2008 | 9 months ended 30 September 2007 |
| | (Unaudited) | |
| Cash flow from operating activities | | |
| Profit before tax | 14,811 | 30,162 |
| Adjustments for: | | |
| Amortization of deferred development costs | 1,820 | 4,145 |
| Amortization of lease prepayment | 43 | 77 |
| Amortization of RCPS transaction cost | 1,139 | 1,138 |
| Loss on disposal of property, plant and equipment | 1,146 | - |
| Depreciation of property, plant and equipment | 4,870 | 4,859 |
| Interest expense | 17 | 3,192 |
| Interest income | (3,909) | (2,606) |
| Exchange gain on RCPS | (7,728) | - |
| Dividend on RCPS | 4,846 | 5,105 |
| Operating profit before working capital changes | 17,055 | 46,072 |
| Changes in working capital: | | - |
| Inventories | (4,253) | (3,872) |
| Trade and bills receivables | (3,495) | 4,605 |
| Other receivables, prepayments and deposits | (5,656) | 132,965 |
| Trade and other payables | (1,788) | 22,186 |
| Cash generated from operations | 1,863 | 201,956 |
| Income tax paid | (1,827) | (2,656) |
| Net cash generated from operating activities | 36 | 199,300 |
| Cash flows from investing activities | | |
| Payments for product development in progress | (559) | (21,060) |
| Purchase of property, plant and equipment | (5,340) | (9,377) |
| Deposit for potential investment | - | (21,095) |

| | | |
|--|-----------------|-----------------|
| Fixed deposits placed with financial institutions | - | (6,952) |
| Interest received | 3,909 | 2,606 |
| Net cash used in investing activities | (1,990) | (55,878) |
| Cash flows from financing activities | | |
| Advances from related parties | - | 11,395 |
| Advances from bank loan | - | 30,000 |
| Repayment to related parties | (5,021) | (5,588) |
| Repayment of bank loan | (30,000) | - |
| Dividend Paid | - | (15,203) |
| Repayment of RCPS | (6,858) | - |
| Interest paid | (17) | (8,297) |
| Net cash (used in) /generated from financing activities | (41,896) | 12,307 |
| Net (decrease)/increase in cash and cash equivalents | (43,850) | 155,729 |
| Cash and cash equivalents at beginning of the period | 199,728 | 63,887 |
| Cash and cash equivalents at end of the period | 155,878 | 219,616 |

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 | - | - | 25,076 | 25,076 | 2,727 | 27,803 |
| Dividend Paid | - | - | (15,203) | (15,203) | - | (15,203) |
| Transfer | - | - | 23,922 | 23,922 | (23,922) | - |
| At 30 September 2007 | 144,975 | 12,225 | 147,545 | 304,745 | 44,932 | 349,677 |
| At 1 January 2008 | 144,975 | 15,948 | 115,256 | 276,179 | 31,176 | 307,355 |
| Net profit for the period | - | - | 13,282 | 13,282 | (85) | 13,197 |
| At 30 September 2008 | 144,975 | 15,948 | 128,538 | 289,461 | 31,091 | 320,552 |

| Company | 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 | - | (10,576) | (10,576) |
| Dividend Paid | - | (15,203) | (15,203) |
| At 30 September 2007 | 144,975 | (9,021) | 135,954 |
| | | | |
| At 1 January 2008 | 144,975 | (16,190) | 128,785 |
| Net loss for the period | - | (2,438) | (2,438) |
| At 30 September 2008 | 144,975 | (18,628) | 126,347 |
| | | | |

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 September 2008 | 3 months ended 30 September 2007 | 9 months ended 30 September 2008 | 9 months ended 30 September 2007 |
| Net profit / loss for the period (RMB'000) | 9,220 | 6,221 | 13,282 | 25,076 |
| 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) | 3.94 | 2.66 | 5.67 | 10.71 |
| (b) On a fully diluted basis (in RMB cents) | 1.22 | 2.66 | 4.11 | 10.71 |

- For the financial period ended 30 September 2007, 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 the total number of issued shares 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 | |
|--|---|--|---|--|
| | 9 months ended 30 September 2008 | Year ended 31 December 2007 | 9 months ended 30 September 2008 | Year ended 31 December 2007 |
| Net asset value per ordinary share capital at the end of the period (in RMB cents) | 136.9 | 131.3 | 54.0 | 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 posted a 48% growth in profit attributable to equity holders of the Company to RMB9.2 million in 3Q08 from RMB6.2 million in 3Q07. This was mainly due to an exchange gain of RMB7.7 million on translation of redeemable convertible cumulative shares (the “RCPS”) liabilities from SGD to reporting currency RMB which appreciated against the SGD during the period. Improvement was supported by steady revenue of RMB31.1 million backed by strong domestic demand despite the difficult business environment marked by swelling production costs, regulatory reforms of the PRC pharmaceutical industry and soft export market afflicting the industry.

Revenue

Group revenue held firm at RMB31.1 million in 3Q08 as compared to the RMB31.5 million in 3Q07. Revenue was mainly shored up by higher antibiotics and cardiovascular and cerebrovascular drugs sales. This was in spite of the lackluster exports beset by foreign aversion stemming from a string of counterfeit drug scandals involving other drug-makers in the PRC, as well as the ongoing regulatory restructuring and consolidation beleaguering the PRC pharmaceutical industry as the PRC authorities aims to improve transparency and healthcare industry structure.

| | 3 months ended 30 September 2008 | 3 months ended 30 September 2007 | Change | | 9 months ended 30 September 2008 | 9 months ended 30 September 2007 | Change | |
|--|--|--|------------|--------------|--|--|-------------|-----------------|
| | RMB'000 | RMB'000 | % | RMB'000 | RMB'000 | RMB'000 | % | RMB'000 |
| Antibiotics | 21,742 | 15,126 | 44 | 6,616 | 56,838 | 60,453 | (6) | (3,615) |
| Cardiovascular drugs and cerebrovascular drugs | 2,416 | 2,291 | 5 | 125 | 7,536 | 12,124 | (38) | (4,588) |
| Other specialized drugs | 6,805 | 7,133 | (5) | (328) | 18,661 | 18,620 | 0 | 41 |
| TCM R&D | 133 | 6,924 | (98) | (6,791) | 5,155 | 8,335 | (38) | (3,180) |
| Total | 31,096 | 31,474 | (1) | (378) | 88,190 | 99,532 | (11) | (11,342) |

The main impetus, antibiotics, chalked up a 44% surge in sales to RMB21.7 million in 3Q08 on strong domestic demand for Ceftriaxone Sodium for Injection and Aztreonam for Injection. The higher sales volume more than offset the lower average antibiotics selling price due to government price control on antibiotics. Antibiotics remained the largest revenue contributor, accounting for 70% of Group revenue in 3Q08.

Sales of cardiovascular drugs and cerebrovascular drugs rose 5% to RMB2.4 million in 3Q08 boosted by increased sales of major product Cerebroprotein Hydrolysate.

Other specialized drugs sales dipped 5% to RMB6.8 million in 3Q08 on weaker demand for Calcium Folate for Injection, Potassium Sodium Dehydroandrographolide Succinate for Injection, Ethylenediamine Diacetate for Injection and Water-soluble Vitamin for Injection.

The nascent TCM R&D revenue, comprising upfront fee and share of future profit from preliminary TCM R&D results, slid 98% to RMB0.13 million in 3Q08. This was attributable to a delay in revenue recognition due to an outstanding contract issue which is expected to be rectified by 4Q08.

Profitability

Gross profit slipped 40% from RMB18.1 million in 3Q07 to RMB10.9 million in 3Q08 owing to higher raw material prices.

Other income soared from RMB0.5 million in 3Q07 to RMB7.9 million in 3Q08 due to an exchange gain of RMB7.7 million on translation of RCPS liabilities from SGD to reporting currency RMB which appreciated against the SGD during the period.

Selling and distribution expenses fell from RMB2.2 million in 3Q07 to RMB1.9 million in 3Q08 as the Group tightened control over its sales and promotion costs.

Administrative expenses increased from RMB6.1 million in 3Q07 to RMB7.2 million in 3Q08 as the Group recognized RMB1.4 million in bad debt from a Company in Sichuan destroyed by the May 2008 earthquake.

Financial income of RMB1.9 million comprised interest income. Financial expenses fell 46% from RMB2.9 million in 3Q07 to RMB1.5 million in 3Q08 mainly due to bank loan settlement in 1Q08.

Minority interest reversed from a positive RMB2.6 million in 3Q07 to a negative RMB0.4 million in 3Q08 due to losses incurred by 60%-owned TCM subsidiaries, Beida Shijia and Shijia Jiushengyuan led by delay in revenue recognition arising from outstanding contract issue.

Overall, Group net profit attributable to equity holders rose 48% from RMB6.2 million in 3Q07 to RMB9.2 million in 3Q08.

Financial Position

(30 September 2008 vs. 31 December 2007)

Total non-current assets fell from RMB292.8 million to RMB290.8 million. Property, plant and equipment decreased from RMB48.1 million to RMB47.4 million due to depreciation. Intangibles assets also dropped from RMB243.4 million to RMB242.1 million as a result of amortization and disposal of some of the intangible assets.

Current assets declined from RMB253.3 million to RMB223.8 million. Inventories increased from RMB17.2 million to RMB21.4 million on increase in costs of raw materials. Trade & bills receivables rose from RMB5.9 million to RMB9.4 million due to delay of payments from certain customers. Other receivables, prepayments and deposits increased from RMB28.2 million to RMB33.9 million mainly attributed to prepayment of some new vendors. Cash and cash equivalents fell from RMB199.7 million to RMB155.9 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 rose from RMB87.9 million to RMB178.7 million. Trade and other payables fell from RMB37.9 million to RMB36.4 million due to repayments. Bank loan of RMB30.0 million was fully repaid in 1Q08 leaving no further bank loan outstanding as of 30 September 2008. Amount due to related parties also declined from RMB11.6 million to RMB7.3 million due to repayment. RCPS (current portion) jumped from RMB6.9 million to RMB133.8 million as the Group took into account a possible new maturity date pursuant to the RCPS Holders' approval on 30 September 2008 to bring forward the maturity date from 29 December 2011 to possibly a date between 30 September 2008 and 31 December 2008, subject to the Company's equity holders' approvals in an EGM to be conducted as well as legal and regulatory clearance.

Non-current liabilities dipped from RMB150.9 million to RMB15.3 million as the entire RCPS liability were treated as current as discussed in the preceding paragraph.

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 is mindful of the challenging economic environment but believes that the defensive nature of the healthcare industry will cushion the blows from this economic downturn. Tumbling raw material prices are also expected to benefit the Group.

There will be no let-up in the Group's ongoing efforts to achieve better returns by scaling up its high margin businesses, enhancing product quality and R&D, upgrading manufacturing facilities and warehouse, augmenting sales & marketing efforts, and increasing productivity and efficiencies.

Despite the temporary glitch which delayed revenue recognition this quarter, the Group is optimistic of the promising potentials of its budding modern TCM segment, and expects to see more robust contributions from this thriving market segment going forward. To size up the growth momentum, the Group will 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 also expects to benefit from the increased barrier of entry from stricter policies and implementation of GMP requirements to weed out shady drug manufacturers.

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/recommended, 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 Third Quarter Results of the Group for the financial period ended 30 September 2008 to be false or misleading in any material respect.

By Order of the Board

**Wong Kai
Chairman**

**Gong Tonglin
Director**

14 November 2008