



STAR

STAR PHARMACEUTICAL LIMITED

Registration No. 200500429W

The initial public offering of the Company's shares was sponsored by Kim Eng Capital Pte. Ltd.

THIRD QUARTER FINANCIAL STATEMENT FOR THE PERIOD ENDED 30TH SEPTEMBER, 2006

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 Income Statement for the period ended 30 September 2006. These figures have not been audited nor reviewed.

	Group			Group		
	RMB'000		(%)	RMB'000		(%)
	3 months ended 30 September 2006	3 months ended 30 September 2005	Increase/ (decrease) +/-	9 months ended 30 September 2006	9 months ended 30 September 2005	Increase/ (decrease) +/-
	(a)	(b)	(a) – (b)	(c)	(d)	(c) – (d)
Revenue	33,869	30,583	11	113,335	86,910	30
Cost of sales	(12,384)	(12,423)	-	(38,802)	(34,578)	12
Gross Profit	21,485	18,160	18	74,533	52,332	42
Other income	1,145	697	64	2,160	1,812	19
Selling and distribution expenses	(1,417)	(2,520)	(44)	(5,490)	(6,244)	(12)
Administrative expenses	(3,778)	(2,705)	40	(11,020)	(6,583)	67
Other expenses	(441)	(830)	(47)	(816)	(1,107)	(26)
Profit from operations	16,994	12,802	33	59,367	40,210	48
Finance Costs	(414)	(154)	169	(1,203)	(619)	94
Profit before taxation	16,580	12,648	31	58,164	39,591	47
Taxation	(1,382)	-	100	(3,748)	-	100
Profit for the period	15,198	12,648	20	54,416	39,591	37
Attributable to:						
Equity holders of the parent	15,210	12,648	20	54,428	39,591	37
Minority interest	(12)	-	100	(12)	-	100
Profit for the period	15,198	12,648	20	54,416	39,591	37
Earnings per share (RMB cents)						
- Basic and diluted	6.50	6.75		24.05	21.14	

n.m. = not meaningful

Notes to the Income Statement:

	Group		Group	
	RMB'000		RMB'000	
	3 months ended 30 September 2006	3 months ended 30 September 2005	9 months ended 30 September 2006	9 months ended 30 September 2005
Profit before taxation includes the following:				
Other income including Value Added Tax ("VAT") refund, government subsidies, interest income and net exchange gain	1,145	697	2,160	1,812
Interest on borrowings	(414)	(154)	(1,203)	(619)
Depreciation and amortization expenses	(2,535)	(2,256)	(7,755)	(5,332)

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-06 RMB'000	31-Dec-05 RMB'000	30-Sep-06 RMB'000	31-Dec-05 RMB'000
Non-current assets					
Property, plant and equipment		43,187	42,818	36	24
Investment in a subsidiary		-	-	76,607	76,607
Lease prepayments		1,337	1,394	-	-
Intangible assets	(a)	220,455	105,555	-	-
		264,979	149,767	76,643	76,631
Current assets					
Inventories		9,028	11,235	-	-
Due from related corporations		-	-	58,077	-
Trade receivables		23,221	11,126	-	-
Other receivables, prepayments and deposits		9,139	14,649	6	12,278
Cash and cash equivalents		65,631	28,944	5,959	-
		107,019	65,954	64,042	12,278
Total assets		371,998	215,721	140,685	88,909
Equity					
Share capital		144,975	76,000	144,975	76,000
Reserves		11,744	5,803	-	-
Accumulated profits/(losses)		114,653	66,166	(5,827)	(2,492)
		271,372	147,969	139,148	73,508
Minority interests	(b)	36,654	-	-	-
Total equity		308,026	147,969	139,148	73,508
Non-current liability					
Amount owing to related corporation		607	607	607	607
Deferred tax liability		2,392	2,414	-	-
		2,999	3,021	607	607
Current liabilities					
Trade and other payables		37,078	28,033	925	9,520
Amount owing to related corporations		20,431	35,038	-	-
Provision for taxation		3,464	1,660	5	5,274
		60,973	64,731	930	14,794
Total liabilities		63,972	67,752	1,537	15,401
Total equity and liabilities		371,998	215,721	140,685	88,909

Notes :

- (a) Intangible assets comprise of Deferred Development Cost with carrying value of RMB\$15,558,000 (At 31/12/2005: RMB\$18,422,000) and Product Development in Progress of RMB\$204,897,000 (At 31/12/2005: RMB\$86,132,000)
- (b) Pursuant to a sales and purchase agreement dated 17 April 2006 and a supplementary agreement dated 1 September 2006, Hainan STAR Pharmaceutical Co. Ltd, the wholly owned subsidiary of the Company, acquired 60% equity interest in Beida Shijia Technology Development Co. Ltd. (北大世佳科技开发有限公司) ("Beida Shijia") for a consideration of RMB 55,000,000. The acquisition resulted in an increase in minority interest. The identifiable assets acquired comprise mainly intangible assets of RMB 103,994,000, fixed assets of RMB 348,000, Inventory of RMB 13,000 and Trade and Other receivable of RMB 12,426,000, determined on a provisional basis. The net cash outflow on acquisition of the Beida Shijia amount of RMB 53,125,000, net of cash balance acquired.

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 September 2006		As at 31 December 2005	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
-	20,431*	-	30,667*

Amount repayable after one year

As at 30 September 2006		As at 31 December 2005	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
-	607	-	607

Details of any collateral:

- * The above loans from immediate holding company, Harvest Year Group Limited ("Harvest Year"), are unsecured and denominated in United States Dollar of US\$2,555,000 (At 31/12/2005: US\$3,800,000)

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

Group	RMB'000	
	9 months ended 30 September 2006	9 months ended 30 September 2005
Cash flow from operating activities		
Profit before taxation	58,164	39,591
Adjustments for:		
Amortization of deferred developments costs	3,620	1,880
Amortization of lease prepayment	57	62
Loss on disposal of property, plant and equipment	138	7
Depreciation of property, plant and equipment	4,078	3,390
Interest expense	1,203	619
Interest income	(559)	(395)
Operating profit before working capital changes	66,701	45,154
Changes in working capital:		
Inventories	2,220	(2,474)
Trade and bills receivables	(24,541)	(4,561)
Other receivable, prepayment and deposits	12,936	2,969
Trade payables and other payables	(11,943)	(249)
Cash generated from operations	45,373	40,839
Income tax paid	(1,966)	(38)
Cash flows from operating activities	43,407	40,801
Cash flows from investing activities		
Payments for product development in progress	(15,526)	(59,132)
Purchase of property, plant and equipment	(4,367)	(5,621)
Proceeds from disposal of property, plant and equipment	131	20
Deposit paid for acquisition of a subsidiary	-	(1,000)
Net cash outflow on acquisition of a subsidiary	(53,125)	-
Interest received	559	395
Net cash used in investing activities	(72,328)	(65,338)
Cash flows from financing activities		
Proceeds from issue of shares	81,419	-
Repayment of loan from immediate holding company	(14,608)	11,746
Interest paid	(1,203)	(619)
Net cash generated from financing activities	65,608	11,127
Net increase/ (decrease) in cash and cash equivalents	36,687	(13,410)
Cash and cash equivalents at beginning of the period	28,944	33,694
Cash and cash equivalents at end of the period	65,631	20,284

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.

Group	Share capital	Statutory surplus reserve	Statutory public welfare fund	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	RMB'000
At 1 January 2005	76,000	8	4	23,620	99,632	-	99,632
Net profit for the period	-	-	-	39,591	39,591	-	39,591
Transfer	-	4,355	-	(4,355)	-	-	-
At 30 September 2005	76,000	4,363	4	58,856	139,223	-	139,223
At 1 January 2006	76,000	5,799	4	66,166	147,969	-	147,969
Issue of shares	81,419	-	-	-	81,419	-	81,419
Share issue expenses	(12,444)	-	-	-	(12,444)	-	(12,444)
Acquisition of subsidiary	-	-	-	-	-	36,666	36,666
Net profit for the period	-	-	-	54,428	54,428	(12)	54,416
Transfer	-	5,941	-	(5,941)	-	-	-
At 30 September 2006	144,975	11,740	4	114,653	271,372	36,654	308,026

Company	Share capital	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2005	76,000	-	76,000
Net loss for the period	-	(1,671)	(1,671)
At 30 September 2005	76,000	(1,671)	74,329
At 1 January 2006	76,000	(2,492)	73,508
Issue of shares	81,419	-	81,419
Share issue expenses	(12,444)	-	(12,444)
Net loss for the period	-	(3,335)	(3,335)
At 30 September 2006	144,975	(5,827)	139,148

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 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.

As at 31 December 2005, the authorized share capital of the Company was S\$10,000,000 (RMB 507,208,000) comprising 1,250,000,000 ordinary shares of S\$0.08 each and the issued and paid-up capital of the Company was S\$14,984,000 (RMB 76,000,000) comprising 187,300,000 ordinary shares of S\$0.08 each.

The Companies (Amendment) Act 2005 came into effect on 30 January 2006 ("Amendments"). Among other things, the Companies Act was amended to abolish the concepts of par value, authorized share capital, share premium, capital redemption reserve and share discounts.

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 30 September 2006, the issued and paid-up capital of the Company was RMB 144,975,729 comprising 234,125,000 ordinary shares.

The proposed issue of 66,668,000 New Redeemable Convertible Cumulative Preference Shares ("RCPS") announced on 20 September 2006 is currently still in progress, and further announcement would be made upon finalisation of the same.

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).

No.

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 period are consistent with those of the audited financial statements for the year ended 31 December 2005.

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 2006 has 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 2006	3 months ended 30 September 2005	9 months ended 30 September 2006	9 months ended 30 September 2005
Net profit for the period (RMB'000)	15,210	12,648	54,428	39,591
No. of ordinary shares used in calculation of basic earning per share	234,125,000*	187,300,000	226,320,833	187,300,000**
Earnings per ordinary share of the group, after deducting any provision for preference dividends (in RMB cents):				
(a) Based on weighted average number of ordinary share on issue: and	6.50	6.75	24.05	21.14
(b) On a fully diluted basis	6.50	6.75	24.05	21.14

* - after the launch of IPO on 15 February 2006

** - these shares were issued in consideration for the acquisition of a subsidiary, accounted for under "pooling of interest" method, these 187,300,000 shares are deemed to have been issued on 29 June 2004.

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 period reported on ; and**
 (b) **immediately preceding financial year.**

	Group		Company	
	9 months ended 30 September 2006	Year ended 31 December 2005	9 months ended 30 September 2005	Year ended 31 December 2005
Net asset value per ordinary share capital at the end of the period (RMB cents)	115.9	79.0	59.4	39.2

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 continued to achieve another consecutive quarter of growth on the back of business and margin expansions in 3Q06. Net profit rose 20% to RMB15.2 million on 11% revenue growth in 3Q06. Gross margin rose from 59% in 3Q05 to 63% in 3Q06. Net margin increased from 41% in 3Q05 to 45% in 3Q06.

For the nine months ended 30 September 2006, net profit jumped 37% to RMB54.4 million on revenue growth of 30%. Net profit of RMB54.4 million achieved in 9M06 had already exceeded FY2005 full-year net profit of RMB48.3 million by 13%.

The Group was tax-exempted until FY2005 and enjoys a 50% deduction in Enterprise Income Tax ("EIT") for three years starting from FY06 (see "Profitability" section below). Excluding the effect of taxation incurred starting 1 January 2006, profit before tax expanded 31% to RMB16.6 million in 3Q06. For the nine months ended 30 September 2006, profit before tax increased 47% to RMB58.2 million.

Revenue

Group revenue registered an 11% growth in 3Q06 supported by increasing sales of cardiovascular & cerebrovascular drugs and other specialized drugs.

	3Q06	3Q05	Change		9M06	9M05	Change	
	RMB'000	RMB'000		RMB'000	RMB'000	RMB'000		RMB'000
Antibiotics	14,510	15,769	-8.0%	-1,259	57,686	43,472	+32.7%	+14,214
Cardiovascular drugs and cerebrovascular drugs	6,619	6,489	+2.0%	+130	21,612	15,935	+35.6%	+5,677
Other specialized drugs	12,740	8,325	+53.0%	+4,415	34,037	27,503	+23.8%	+6,534
Total	33,869	30,583	+10.7%	+3,286	113,335	86,910	+30.4%	+26,425

Antibiotics sales fell 8% to RMB14.5 million in 3Q06 led by decrease in average price due to government price control on antibiotics. This was partially mitigated by higher sales volume driven by strong demand, especially for key antibiotics product, Azithromycin

Aspartate Lyophilised Powder for Injection. Antibiotics continued to be the largest revenue contributor, representing 42.8% of Group revenue in 3Q06.

Cardiovascular drugs and cerebrovascular drugs recorded 2% sales growth to RMB6.6 million in 3Q06 on the back of increase in sales of major product Cerebroprotein Hydrolysate Injection. Cardiovascular drugs and cerebrovascular drugs constituted 19.5% of Group revenue in 3Q06.

Sales of other specialized drugs soared 53% to RMB12.7 million in 3Q06 fueled by increase in sales of major product, Potassium Sodium Dehydroandrographolide Succinate Lyophilised Powder for Injection, as well as the sales of a new local anesthetics product launched in mid-2005, Ropivacaine Mesilate Sodium. Other specialized drugs formed 37.6% of Group revenue in 3Q06.

Boosted by strong demand for key products, Group revenue jumped 30% to RMB113.3 million in 9M06 compared to 9M05.

Profitability

Gross profit increased 18% from RMB18.2 million in 3Q05 to RMB 21.5 million in 3Q06 on the back of revenue and gross margin expansions. Gross margin improved further from 59.4% in 3Q05 to 63.4% in 3Q06 on lower raw material prices.

Other income mainly comprised government subsidies and interest income. The increase was attributable to interest income from IPO proceeds deposited at bank and the increase of government subsidies.

Selling expenses was lower due to decrease of advertising expenses. This decrease was due to seasonal fluctuation and such expenses will likely be increased in the coming quarter. Administrative expenses rose attributable to new staff hiring to support business expansion, as well as increases in depreciation & amortization expenses.

Rise in finance cost was due to interest expense incurred on additional working capital loan from the Company's immediate holding company.

The Company's subsidiary, Hainan STAR Pharmaceutical Co., Ltd ("HNSTAR"), as a wholly foreign-owned enterprise, was exempted from Enterprise Income Tax ("EIT") for its first two years of profitability, i.e. FY2004 and FY2005, and would enjoy a 50% deduction in EIT for the subsequent three years. The Group was therefore not subject to any income tax in FY2005. Starting from FY2006, HNSTAR is taxable at 7.5%, which accounted for the RMB1.4 million taxation expenses in 3Q06.

Overall, net profit after tax increased 20% to RMB15.2 million in 3Q06 on business and margin expansions. Net margin expanded from 41.4% in 3Q06 to 44.9% in 3Q06.

For 9M06, net profit after tax increased 37% to RMB54.4 million. This had already surpassed FY2005 full-year profit of RMB48.3 million by 13%.

Financial Position

(30 September 2006 vs. 31 December 2005)

Total non-current assets rose to RMB 265.0 million from \$149.8 million. This was mainly attributable to the capitalization of rising new product research & development (R&D) expenses and product development costs as a result of the acquisition of equity interest in Beida Shijia Technology Development Co., Ltd. ("Beida Shijia") on 31 August 06.

Current assets jumped to RMB107.1 million from RMB66.0 million. Inventory decreased and trade receivables increased attributed to the higher sales in 3Q06. Business growth added to proceeds raised from IPO in February 2006, lifting cash & cash equivalents to RMB65.6 million from RMB28.9 million.

Current liabilities were lower at RMB61.0 million from RMB64.7 million. Amount owing to related corporations decreased as a result of repayment of IPO expenses to our immediate holding company during the period.

Long-term liabilities remained at RMB3.0 million levels as the Company remains free of bank debt.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

The Group financial performance in 3Q 2006 was in line with the view expressed by the Directors in the 2Q 2006 announcement on 10 August 2006

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

With 9M06 net profit already considerably surpassing FY2005 full-year net profit, the Group is cautiously optimistic of its business prospects for the rest of FY2006.

The Group's foray into the buoyant TCM-formulated drug sector remains on track as its recently acquired Beida Shijia, a leading TCM-formulated drug research institution and joint venture with Peking University (北京大学), continues to make progress in innovative TCM-formulated drugs development, testing and regulatory application.

To tap into the rapidly growing pharmaceutical industry in the PRC, the Group will continue to focus on new product R&D and enhance its marketing & distribution initiatives to roll out its strong product pipeline.

Barring unforeseen circumstances, the Group expects double-digit growth in revenue and net profit for full-year FY2006 from those in FY2005.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?
None

(b) Corresponding Period of the immediately preceding financial year

Any dividend declared for the corresponding period of the immediately preceding financial year?

None

(c) Date payable

Not applicable

(d) Book Closure Date

Not applicable

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

No dividend has been declared/recommended for the current period reported on..

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 2006 to be false or misleading in any material respect.

By Order of the Board

**Wong Kai
Chairman**

14 November 2006