



**STAR**

**STAR PHARMACEUTICAL LIMITED**

Registration No. 200500429W

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

**HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2006**

**PART I - 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 June 2006. These figures have not been audited nor reviewed, except for those financial information as stated in paragraph 3.

	Group			Group		
	RMB'000		%	RMB'000		%
	3 months ended 30 June 2006	3 months ended 30 June 2005	Increase/ (Decrease)	6 months ended 30 June 2006	6 months ended 30 June 2005	Increase/ (Decrease)
	(a)	(b)	(a) - (b)	(c)	(d)	(c) - (d)
Revenues	48,992.00	33,549.00	46.0	79,466.00	56,327.00	41.1
Cost of Sales	(14,235.00)	(10,720.00)	32.8	(26,418.00)	(22,155.00)	19.2
<b>Gross profit</b>	<b>34,757.00</b>	<b>22,829.00</b>	<b>52.2</b>	<b>53,048.00</b>	<b>34,172.00</b>	<b>55.2</b>
Other income	668.00	830.00	(19.5)	1,015.00	1,115.00	(9.0)
Selling and distribution expenses	(1,157.00)	(1,474.00)	(21.5)	(4,073.00)	(3,724.00)	9.4
Administration expenses	(3,745.00)	(1,526.00)	145.4	(7,242.00)	(3,878.00)	86.7
Other expenses	(79.00)	70.00	(212.9)	(375.00)	(277.00)	35.4
<b>Profit from operations</b>	<b>30,444.00</b>	<b>20,729.00</b>	<b>46.9</b>	<b>42,373.00</b>	<b>27,408.00</b>	<b>54.6</b>
Finance costs	(378.00)	(203.00)	86.2	(789.00)	(465.00)	69.7
<b>Profit before taxation</b>	<b>30,066.00</b>	<b>20,526.00</b>	<b>46.5</b>	<b>41,584.00</b>	<b>26,943.00</b>	<b>54.3</b>
Taxation	(1,365.00)	-	100.0	(2,366.00)	-	100.0
<b>Profit for the period</b>	<b>28,701.00</b>	<b>20,526.00</b>	<b>39.8</b>	<b>39,218.00</b>	<b>26,943.00</b>	<b>45.6</b>
<b>Earnings per share (RMB cents)</b>						
-basic and diluted	12.26	10.96		17.63	14.38	

NM: Not Meaningful

**Notes to the Income Statement**

	Group RMB'000		Group RMB'000	
	3 months ended 30 June 2006	3 months ended 30 June 2005	6 months ended 30 June 2006	6 months ended 30 June 2005
Profit before taxation includes the following:				
Other income including Value Added Tax ("VAT") refund, government subsidies, interest income and net exchange gain	668	830	1,015	1,115
Interest on borrowings	(375)	(208)	(789)	(465)
Depreciation and amortisation expenses	(2,754)	(2,229)	(5,220)	(3,076)

**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	
		6 months ended	Year ended	6 months ended	Year ended
		30 Jun 2006	31 Dec 2005	30 Jun 2006	31 Dec 2005
		RMB'000	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>					
Property, plant and equipment		43,675	42,818	28	24
Investment in a subsidiary		-	-	76,607	76,607
Lease prepayments		1,362	1,394	-	-
Intangible assets	(a)	115,424	105,555	-	-
		<b>160,461</b>	<b>149,767</b>	<b>76,635</b>	<b>76,631</b>
<b>Current assets</b>					
Inventories		13,066	11,235	-	-
Due from related corporations		-	-	58,134	-
Trade receivables		36,053	11,126	-	-
Other receivables, prepayments and deposits	(b)	21,037	14,649	-	12,278
Cash and cash equivalents		70,776	28,944	7,316	-
		<b>140,932</b>	<b>65,954</b>	<b>65,450</b>	<b>12,278</b>
<b>Total assets</b>		<b>301,393</b>	<b>215,721</b>	<b>142,085</b>	<b>88,909</b>
<b>Equity</b>					
Share capital		144,975	76,000	144,975	76,000
Reserves		10,029	5,803	-	-
Accumulated profits / (losses)		101,158	66,166	-4,969	-2,492
<b>Total equity</b>		<b>256,162</b>	<b>147,969</b>	<b>140,006</b>	<b>73,508</b>
<b>Non-current liabilities</b>					
Amount owing to related corporation		607	607	607	607
Deferred tax liabilities		2,399	2,414	-	-
		<b>3,006</b>	<b>3,021</b>	<b>607</b>	<b>607</b>
<b>Current liabilities</b>					
Trade and other payables		18,579	28,033	1,467	9,520
Amount owing to related corporations		20,373	35,038	-	-
Provision for taxation		3,273	1,660	5	5,274
		<b>42,225</b>	<b>64,731</b>	<b>1,472</b>	<b>14,794</b>
<b>Total liabilities</b>		<b>45,231</b>	<b>67,752</b>	<b>2,079</b>	<b>15,401</b>
<b>Total equity and liabilities</b>		<b>301,393</b>	<b>215,721</b>	<b>142,085</b>	<b>88,909</b>

**Notes:**

- (a) Intangible assets comprise of Deferred Development Cost with carrying value of RMB\$16,683,000 (At 31/12/2005: RMB\$18,422,000) and Product Development in Progress of RMB\$98,740,000 (At 31/12/2005: RMB\$86,132,000)
- (b) Other receivable included a deposit of RMB\$20,000,000 (At 31/12/2005: Nil) for the acquisition of Beida Shijia Technology Development Co. Ltd. (北大世佳科技开发有限公司) ("Beida Shijia").

**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 2006		As at 31 December 2005	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
-	20,373*	-	30,667*

**Amount repayable after one year**

As at 30 June 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.**

<u>Group</u>	RMB'000	
	6 months ended 30 June 2006	6 months ended 30 June 2005
Cash flow from operating activities		
Profit before taxation	41,584	26,943
Adjustments for:		
Amortisation of deferred development costs	2,493	779
Amortisation of lease prepayment	32	47
Loss on disposal of property, plant and equipment	138	7
Depreciation of property, plant and equipment	2,695	2,250
Interest expense	789	465
Interest income	(243)	(52)
<b>Operating profit before working capital changes</b>	<b>47,488</b>	<b>30,439</b>
Changes in working capital:		
Inventories	(1,831)	722
Trade and bill receivables	(24,927)	(2,051)
Other receivables, prepayments and deposits	1,169	3,111
Trade payables and other payables	(8,373)	(5,106)
<b>Cash generated from operations</b>	<b>13,526</b>	<b>27,115</b>
Income tax paid	(767)	(38)
<b>Cash flows from operating activities</b>	<b>12,759</b>	<b>27,077</b>
Cash flow from investing activities		
Payments for product development in progress	(13,443)	(20,334)
Purchase of property, plant and equipment	(3,822)	(4,507)
Proceeds from disposal of property, plant and equipment	131	20
Deposit paid for acquisition of a subsidiary	(20,000)	-
Repayment of loan from a third party	-	500
Interest received	243	52
<b>Net cash used in investing activities</b>	<b>(36,891)</b>	<b>(24,269)</b>

<b>Cash flow from financing activities</b>		
Proceeds from issue of shares	81,419	-
Repayment of loan from immediate holding company	(14,666)	-
Interest paid	(789)	(465)
<b>Net Cash generated from/(used in) financing activities</b>	<b>65,964</b>	<b>(465)</b>
Net increase in cash and cash equivalents	41,832	2,343
Cash and cash equivalents at beginning of the period	28,944	33,694
Cash and cash equivalents at end of the period	70,776	36,037

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

<u>Group</u>	Share capital	Statutory surplus reserve	Statutory public welfare fund	Accumulated profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2005</b>	76,000	8	4	23,620	99,632
Net profit for the period	-	-	-	26,943	26,943
Transfer	-	2,780	-	(2,780)	-
<b>At 30 June 2005</b>	<b>76,000</b>	<b>2,788</b>	<b>4</b>	<b>47,783</b>	<b>126,575</b>
<b>At 1 January 2006</b>	76,000	5,799	4	66,166	147,969
Issue of shares	81,419	-	-	-	81,419
Share issue expenses	(12,444)	-	-	-	(12,444)
Net profit for the period	-	-	-	39,218	39,218
Transfer	-	4,226	-	(4,226)	-
<b>At 30 June 2006</b>	<b>144,975</b>	<b>10,025</b>	<b>4</b>	<b>101,158</b>	<b>256,162</b>
<u>Company</u>	Share capital	Accumulated losses	Total		
	RMB'000	RMB'000	RMB'000		
<b>At 1 January 2005 and 30 June 2005</b>	76,000	-	76,000		
<b>At 1 January 2006</b>	76,000	(2,492)	73,508		
Issue of shares	81,419	-	81,419		
Share issue expenses	(12,444)	-	(12,444)		
Net profit for the period	-	(2,477)	(2,477)		
<b>At 30 June 2006</b>	<b>144,975</b>	<b>(4,969)</b>	<b>140,006</b>		



- 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 (RMB507,208,000) 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 (RMB76,000,000) 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 June 2006, the issued and paid-up capital of the Company was RMB144,975,729 comprising 234,125,000 ordinary shares.

- 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, except for the financial information for the 6 months ended 30 Jun 2006 which have been reviewed by the Group's auditors in accordance with the Singapore Statement of Auditing Practice 11 "Review of Interim Financial Information".

- 3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).**

Please see the attached review report.

- 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 June 2006	3 months ended 30 June 2005	6 months ended 30 June 2006	6 months ended 30 June 2005
Net profit for the period (RMB'000)	28,701	20,526	39,218	26,943
No. of ordinary shares used in calculation of basic earning per share	234,125,000*	187,300,000	222,418,750	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 shares on issue; and	12.26	10.96	17.63	14.38
(b) On a fully diluted basis	12.26	10.96	17.63	14.38

\* - 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 2006.

**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	
	6 months ended 30 Jun 2006	Year ended 31 Dec 2005	6 months ended 30 Jun 2006	Year ended 31 Dec 2005
Net asset value per ordinary share based on issued share capital at the end of the period (RMB cents)	109	79	59.8	39.2

**8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:**  
**(a) any significant factors that affected the turnover, costs, and earnings of the group for the 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

Building on the healthy performance achieved in 1Q06, the Group continued to deliver strong growth and margin expansions in 2Q06. Net profit rose 39.8% to RMB28.7 million on 46.0% revenue growth in 2Q06. For the half year ended 30 June 2006, net profit jumped 45.6% to RMB39.2 million on revenue growth of 41.1%.

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 46.5% to RMB30.1 million in 2Q06. For the six months ended 30 June 2006, profit before tax increased 54.3% to RMB41.6 million from RMB26.9 million in 1H05.

Strong growth was supported by expanding profit margins. Gross margin and net margin remain strong at 70.9% and 58.6% respectively in 2Q06 compared to 68% and 61.2% for 2Q05.

## Revenue

Group revenue increased 46.0% to RMB49.0 million in 2Q06 led by strong growth in antibiotics and cardiovascular & cerebrovascular drugs.

	3 months ended	3 months ended	Change		6 months ended	6 months ended	Change	
	30 Jun 2006	30 Jun 2005	%	RMB'000	30 Jun 2006	30 Jun 2005	%	RMB'000
<b>Group</b>	<b>RMB'000</b>	<b>RMB'000</b>			<b>RMB'000</b>	<b>RMB'000</b>		<b>RMB'000</b>
Antibiotics	27,264	12,997	110	14,267	43,176	27,703	56	15,473
Cardiovascular drugs and cerebrovascular drugs	9,781	5,781	69	4,000	14,993	9,446	59	5,547
Other specialised drugs	11,947	14,771	(19)	(2,824)	21,297	19,178	11	2,119
<b>Total</b>	<b>48,992</b>	<b>33,549</b>	<b>46</b>	<b>15,443</b>	<b>79,466</b>	<b>56,327</b>	<b>41</b>	<b>23,139</b>

Antibiotics sales soared 110% to RMB27.3 million in 2Q06, fueled by strong demand for key antibiotics products, Azithromycin Aspartate Lyophilised Powder for Injection and Cefoperazone Sodium and Sulbactam Sodium Powder Injection. Product quality and strong past sales record led to increase in sales volume when average price decreased due to government price control on antibiotics. Antibiotics sales are stable and continued to be the largest revenue contributor, representing 55.6% of Group revenue in 2Q06.

Cardiovascular drugs and cerebrovascular drugs registered 69% sales growth to RMB9.8 million in 2Q06 mainly attributable to rising sales of major product Cerebroprotein Hydrolysate Injection.

Other specialised drug sales eased 19% to RMB12.0 million in 2Q06.

Against 2H05, Group revenue rose 41.1% to RMB79.5 million in 1H06, supported by continued strong sales of key products.

## Profitability

Driven by higher revenue and gross margin, gross profit rose 52.2% to RMB34.8 million in 2Q06 from RMB22.8 million in 2Q05. On lower raw material prices, gross margin slightly expanded from 68.0% in 2Q05 to 70.9% in 2Q06.

Other income mainly comprised government subsidies and interest income. The decrease was due to decrease in government subsidies and was partly offset by increase in interest income from IPO proceeds deposited at bank.

Selling expenses rose in line with increased sales and promotion drive, as well as increase in sales and marketing personnel.

Administrative expenses rose as a result of new staff hired to support business expansion which led to higher salary expenses, 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 in July 2005.

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 2Q06.

Overall, net profit after tax increased 39.8% to RMB28.7 million in 2Q06 on strong sales and margins. For 1H06, net profit after tax increased 45.6% to RMB39.2 million.

## Financial Position

*(30 June 2006 vs. 31 December 2005)*

Total non-current assets rose to RMB160.5 million from \$149.8 million. This was mainly attributable to the capitalization of product development related costs for our two Category 1 drugs (i.e. drugs which have not previously been marketed in the PRC and/or worldwide) and other new drugs at various development stages.

Current assets jumped to RMB140.9 million from RMB66.0 million. Inventory and trade receivables increased in line with higher sales. Other receivables, prepayments and deposits rose due to RMB20 million deposit made for the acquisition of Beida Shijia Technology Development Co., Ltd. ("Beida Shijia") as well as increase in prepayment for development cost. Business growth added to proceeds raised from IPO in February 2006, lifting cash & cash equivalents to RMB70.8 million from RMB28.9 million.

Current liabilities were lower at RMB42.2 million from RMB64.7 million. With repayment of accrued IPO expenses, trade and other payables were reduced to RMB18.6 million from RMB28.0 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 from 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 2Q 2006 was in line with the view expressed by the Directors in the 1Q 2006 announcement on 8 May 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**

Having achieved consecutive quarters of strong growth, the Group maintains its positive outlook of its business prospects for the rest of FY06.

To sustain growth, the Group will continue its focused R&D and selling & distribution initiatives in rolling out its strong product pipeline to tap into the rapidly growing pharmaceutical industry in the PRC.

The Group is working closely with its recently acquired Beida Shijia, a leading TCM-formulated drug research institution and joint venture with Peking University (北京大学), to actively develop and promote innovative TCM-formulated drugs with patents and regulatory protections, with the aim of growing its business in the expanding TCM-formulated drug sector.

Barring unforeseen circumstances, the Group expects revenue and net profit in FY2006 to exceed 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) Books closure date**

Not applicable

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

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

**BY ORDER OF THE BOARD**

**Wong Kai**  
**Chairman**  
10 August 2006