



# STAR PHARMACEUTICAL LIMITED

Registration No. 200500429W

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

---

## UNAUDITED FIRST QUARTER FINANCIAL STATEMENT ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 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 31 March 2006. These figures have not been audited.

Group	RMB'000		%
	Actual	Actual	
	Period ended 31/03/2006 (a)	Period ended 31/03/2005 (b)	
Revenues	30,474	22,778	33.8
Cost of sales	(12,183)	(11,435)	6.5
<b>Gross profit</b>	<b>18,291</b>	<b>11,343</b>	<b>61.3</b>
Other income	347	285	21.8
Selling and distribution expenses	(2,916)	(2,250)	29.6
Administration expenses	(3,497)	(2,352)	48.7
Other expenses	(296)	(347)	(14.7)
	<b>11,929</b>	<b>6,679</b>	<b>78.6</b>
Finance costs	(411)	(262)	56.9
<b>Profit before taxation</b>	<b>11,518</b>	<b>6,417</b>	<b>79.5</b>
Taxation	(1,001)	-	100.0
<b>Profit for the period</b>	<b>10,517</b>	<b>6,417</b>	<b>63.9</b>
<b>Earnings per share (RMB cents)</b>			
- basic and diluted	4.5	3.4	

## Notes to the Income Statement:

<u>Group</u>	RMB'000	
	Actual	Actual
	Period ended 31/03/2006 (a)	Period ended 31/03/2005 (b)
<b>Profit before taxation includes the following:</b>		
Other income including Value Added Tax ("VAT") refund, interest income and net exchange gain	347	285
Interest on borrowings	(414)	(257)
Depreciation and amortisation expenses	(2,466)	(847)

**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.**

	Group		Company	
	31/03/2006 RMB'000	31/12/2005 RMB'000	31/03/2006 RMB'000	31/12/2005 RMB'000
<b>Non Current assets</b>				
Property, plant and equipment	43,550	42,818	22	24
Investment in a subsidiary	-	-	76,607	76,607
Loan to subsidiary	-	-	49,549	-
Lease prepayments	1,383	1,394	-	-
Intangible assets	116,024	105,555	-	-
	<u>160,957</u>	<u>149,767</u>	<u>126,178</u>	<u>76,631</u>
<b>Current assets</b>				
Inventories	13,226	11,235	-	-
Trade receivables	14,868	11,126	-	-
Other receivables, prepayments and deposits	5,045	14,649	-	12,278
Cash and cash equivalents	93,126	28,944	20,673	-
	<u>126,265</u>	<u>65,954</u>	<u>20,673</u>	<u>12,278</u>
<b>Total assets</b>	<u>287,222</u>	<u>215,721</u>	<u>146,851</u>	<u>88,909</u>
<b>Equity</b>				
Share capital	145,169	76,000	145,169	76,000
Reserves	7,043	5,803	-	-
Accumulated profits/(losses)	75,443	66,166	(3,862)	(2,492)
<b>Total equity</b>	<u>227,655</u>	<u>147,969</u>	<u>141,307</u>	<u>73,508</u>
<b>Non-current liabilities</b>				
Amount owing to related corporation	607	607	607	607
Deferred tax liabilities	2,409	2,414	-	-
	<u>3,016</u>	<u>3,021</u>	<u>607</u>	<u>607</u>
<b>Current liabilities</b>				
Trade and other payables	22,400	28,033	1,984	9,520
Amount owing to related corporations	32,491	35,038	2,953	-
Provision for taxation	1,660	1,660	-	5,274
	<u>56,551</u>	<u>64,731</u>	<u>4,937</u>	<u>14,794</u>
<b>Total liabilities</b>	<u>59,567</u>	<u>67,752</u>	<u>5,544</u>	<u>15,401</u>
<b>Total equity and liabilities</b>	<u>287,222</u>	<u>215,721</u>	<u>146,851</u>	<u>88,909</u>

**1(b)(ii) Aggregate amount of Group's borrowings and debt securities.****Amount repayable in one year or less, or on demand**

As at 31.03.2006		As at 31.12.2005	
Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
-	30,667*	-	30,667*

**Amount repayable after one year**

As at 31.03.2006		As at 31.12.2005	
Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured 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\$3,800,000 (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	
	Actual Period ended 31/03/2006	Actual Period ended 31/03/2005
<b>Cash flow from operating activities</b>		
Profit before taxation	11,518	6,417
Adjustments for:		
Amortisation of deferred development costs	1,099	280
Amortisation of lease prepayment	23	23
Depreciation of property, plant and equipment	1,344	544
Interest expense	415	257
Interest income	(12)	(17)
Impairment loss on property, plant and equipment	-	523
<b>Operating profit before working capital changes</b>	<b>14,387</b>	<b>8,027</b>
<b>Changes in working capital:</b>		
Inventories	(1,991)	(712)
Trade and bill receivables	(3,742)	6,964
Other receivables, prepayments and deposits	(2,646)	(1,681)
Amount due to related corporations	-	412
Trade and other payables	3,643	(1,031)
<b>Cash generated from operations</b>	<b>9,651</b>	<b>11,979</b>
Income tax paid	(1,006)	(38)
<b>Cash flows from operating activities</b>	<b>8,645</b>	<b>11,941</b>
<b>Investing activities</b>		
Payments for product development in progress	(11,568)	(14,599)
Purchase of property, plant and equipment	(2,076)	(3,711)
Interest received	12	17
<b>Cash flows from investing activities</b>	<b>(13,632)</b>	<b>(18,293)</b>
<b>Financing activities</b>		
Proceeds from issue of shares	81,418	-
Share issue expenses	(12,249)	-
<b>Cash flows from financing activities</b>	<b>69,169</b>	<b>-</b>
Net increase/(decrease) in cash and cash equivalents	64,182	(6,352)
Cash and cash equivalents at beginning of the period	28,944	33,694
Cash and cash equivalents at end of the period	<b>93,126</b>	<b>27,342</b>

**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 RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 2005	76,000	8	4	23,620	99,632
Net profit for the year	-	-	-	48,337	48,337
Transfer	-	5,791	-	(5,791)	-
<b>At 31 December 2005</b>	<b>76,000</b>	<b>5,799</b>	<b>4</b>	<b>66,166</b>	<b>147,969</b>
At 1 January 2006	76,000	5,799	4	66,166	147,969
Issue of shares	81,418	-	-	-	81,418
Share issue expenses	(12,249)	-	-	-	(12,249)
Net profit for the period	-	-	-	10,517	10,517
Transfer	-	1,240	-	(1,240)	-
<b>At 31 March 2006</b>	<b>145,169</b>	<b>7,039</b>	<b>4</b>	<b>75,443</b>	<b>227,655</b>

<u>Company</u>	Share capital RMB'000	Accumulated losses RMB'000	Total RMB'000
Share issued during the period	76,000	-	76,000
Net loss for the period	-	(2,492)	(2,492)
<b>At 31 December 2005</b>	<b>76,000</b>	<b>(2,492)</b>	<b>73,508</b>
Share issued during the period	76,000	(2,492)	73,508
Issue of shares	81,418	-	81,418
Share issue expenses	(12,249)	-	(12,249)
Net loss for the period	-	(1,370)	(1,370)
<b>At 31 March 2006</b>	<b>145,169</b>	<b>(3,862)</b>	<b>141,307</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 authorised share capital of the Company was S\$100,000,000 (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, authorised 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 authorised share capital.

	As at 31/03/2006	After taking into consideration the Amendments	After Invitation and as at 31/03/2006
	S\$	S\$	S\$
<b>Authorised Share Capital (S\$)</b>			
1,250,000,000 ordinary shares of S\$0.08 each	100,000,000	abolished	abolished
<b>Shareholders' Funds</b>			
Issued and fully paid-up share capital	14,984,000	14,984,227	29,154,353
Share premium	227	abolished	abolished
Total Shareholders' equity	14,984,227	14,984,227	29,154,353

As at 31 March 2006, the issued and paid-up capital of the Company was S\$29,194,353 (RMB145,169,201) 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 or 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 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.**

Not applicable.

**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.**

<u>Group</u>	Group	
	Actual	Actual
	Period ended 31/03/06	Period ended 31/03/05
(a) Earnings (RMB'000)	10,517	6,417
(b) no of ordinary shares used in calculation of basic earnings per share	234,125,000*	187,300,000**
(c) Earnings per ordinary share of the Group, after deducting any provision for preference dividends (in RMB cents):		
- Based on weighted average number of ordinary shares on issue; and	4.5	3.4
- On a fully diluted basis	4.5	3.4

\* - after the launch of IPO on 15 February 2006

\*\* These shares were issued in consideration for the acquisition of a subsidiary, accounted for under the "pooling of interests" method. Accordingly, 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 31/03/2006	Group 31/12/2005
Net asset value per ordinary share based on issued share capital at the end of financial year (in RMB cents):	97.2	79.0

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.**

#### **Income Statement (1Q 2006 vs. 1Q 2005)**

##### **Overview**

The Group continued to achieve good performance in the first quarter ended 31 March 2006 ("1Q06"). Group revenue expanded 34% on broad-based growth across all product segments. Net profit soared 64% from that in the first quarter ended 31 March 2005 ("1Q05") on strong sales and margin expansions.

##### **Revenue**

Group revenue rose 34% from RMB22.8 million in 1Q05 to RMB30.5 million in 1Q06. Increase was driven by stronger sales broad-based across all product segments.

<u>Group</u>	Actual Period ended 31/03/2006 RMB'000	Actual Period ended 31/03/2005 RMB'000	Increase RMB'000	%
Antibiotics	15,912	14,706	1,206	8
Cardiovascular drugs and cerebrovascular drugs	5,212	3,665	1,547	42
Other specialised drugs	9,350	4,407	4,943	112
	<u>30,474</u>	<u>22,778</u>	7,696	34

Antibiotics sales rose 8% from RMB14.7 million in 1Q05 to RMB16.0 million in 1Q06. This was mainly attributable to increases in sales of major product, Azithromycin Aspartate Lyophilised Powder for Injection, Cefoperazone Sodium and Sulbactam Sodium Powder Injection launched in the second half of FY2004 and new product launched in second quarter of FY2005, Cefepime Hydrochloride for Injection. Improvement was despite government control on certain antibiotics selling prices to increase accessibility, whose impact was more than offset by the increase in sales volume.

Sales of cardiovascular drugs and cerebrovascular drugs climbed 42% from RMB3.7 million to RMB5.2 million lifted by increase in sales of major product, Cerebroprotein Hydrolysate Injection.

Other specialised drug segment also registered a high sales growth of 112% from RMB4.4 million in 1Q05 to RMB9.4 million in 1Q06. This was mainly supported by two products, Potassium Sodium Dehydroandrographolide Succinate Lyophilised Powder for Injection, an anti-viral drug launched in the second half of FY2004, and Ropivacaine Mesilate Sodium for Injection, a local anesthetic launched in June 2005.

### **Profitability**

Gross profit jumped 61% from RMB11.3 million in 1Q05 to RMB18.3 million in 1Q06 lifted by higher sales and margin expansion. The Group achieved gross profit margin of 60% during the quarter, representing a 10 percentage point improvement from the 50% in 1Q05. This was led by higher margins of new products launched in second half of FY2004 and FY2005, as well as decline in raw material costs. The above combined effects more than offset the lower selling price of older generation antibiotics due to price control by the State Food and Drug Administration ("SFDA") of the PRC to make medicines more accessible to the public.

Other income mainly comprised Value Added Tax ("VAT") refund from the government. The increase was in line with higher sales during the quarter.

On expanding business activities, selling and administrative expenses increased in 1Q06. Selling expenses rose 30% in line with increased sales and marketing drive in the PRC and intensifying advertising and promotional efforts. Administrative expenses increased 49% due to higher salary expenses as a result of new hires.

Finance cost rose 57% or RMB0.1 million on increased 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 effective FY2004 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 RMB1.0 million taxation expenses in 1Q06.

Overall, net profit jumped 64% from RMB6.4 million in 1Q05 to RMB10.5 million in 1Q06 owing to higher gross profit margins, successful launches of new products and business expansion. Net profit margin improved from 28.2% in 1Q05 to 34.5% in 1Q06.

### **Financial Positions**

(31 March 2006 vs. 31 December 2005)

Total non-current assets rose to RMB161.0 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 RMB126.3 million from RMB66.0 million. Inventory and trade and bill receivables increased in line with higher sales. Proceeds raised from IPO in February 2006 lifted cash & cash equivalents to RMB93.1 million from RMB28.9 million.

Current liabilities were lower at RMB56.6 million from RMB64.7 million. With repayment of accrued IPO expenses, trade and other payables were reduced to RMB22.4 million from

RMB28.0 million. Amount owing to related corporations decreased by RMB2.5 million 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.

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

Not applicable. No forecast or prospect statement has been previously disclosed to shareholders.

**10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.**

The Group maintains its positive outlook for the rest of FY2006.

Focused R&D and selling & distribution initiatives, strong product pipeline and the rapid growth of the pharmaceutical industry in the PRC will continue to drive future growth for the Group.

In April 2006, the Group entered into an agreement to acquire 60% of Beida Shijia Technology Development Co., Ltd. (北大世佳科技开发有限公司) ("Beida Shijia"), a leading TCM-formulated drug research institution in the Peoples' Republic of China ("PRC") under the prestigious Peking University (北京大学) which holds the remaining 40% of Beida Shijia. Backed by a strong research team of over 100 research specialists, a strong pipeline of TCM-formulated drugs under development and active international research cooperation, the new strategic joint venture with Peking University greatly strengthens the Group's R&D capabilities and helps fuel its growth potentials in the expanding TCM-formulated drug market.

After the acquisition, the Group has 28 new drugs under development, of which 18 are TCM-formulated drugs and 4 are classified as "Category 1" drugs by the SFDA. The Group expects to launch 5 major new drugs in 2006 or early 2007, subject to SFDA's approval. These new product launches will add positively to Group earnings going forward.

**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/recommendeded for the current period reported on.

**BY ORDER OF THE BOARD**

**Wong Kai**  
**Chairman**  
08/05/2006