

**STAR****STAR PHARMACEUTICAL LIMITED**

Registration No. 200500429W

UNAUDITED FIRST QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 MARCH 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		
	RMB'000		(%)
	3 months ended 31 March 2008	3 months ended 31 March 2007	Increase/ (decrease) +/(–)
	(a)	(b)	(a) – (b)
Revenue	26,310	42,239	(38)
Cost of sales	(13,731)	(11,996)	15
Gross Profit	12,579	30,243	(58)
Other operating income	415	766	(46)
Selling and distribution expenses	(3,855)	(1,955)	97
Administrative expenses	(6,865)	(4,073)	69
Other operating expenses	(323)	(237)	36
Finance income	1,470	603	144
Finance costs	(1,904)	(2,216)	(14)
Profit before tax	1,517	23,131	(93)
Income tax	(572)	(1,556)	(63)
Profit after tax	945	21,575	(96)
Attributable to:			
Equity holders of the Company	1,716	21,419	(92)
Minority interest	(771)	156	n.m.
Profit for the period	945	21,575	(96)
Earnings per share (cents)			
- Basic	0.7	9.1	
- Diluted	0.7	9.1	

Notes to the Income Statement:

	Group	
	RMB'000	
	3 months ended 31 March 2008	3 months ended 31 March 2007
Profit before tax includes the following:		
Other income including Value Added Tax (“VAT”) refund	415	766
Interest income	1,470	603
Interest on borrowings	7	479
Foreign exchange loss	283	220
Dividend on RCPS	1,897	1,737
Depreciation and amortization expenses	2,239	2,305
Amortization of RCPS transaction cost	380	380

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	
		31 Mar-08 RMB'000	31 Dec-07 RMB'000	31 Mar-08 RMB'000	31 Dec-07 RMB'000
Non-current assets					
Property, plant and equipment		47,604	48,079	34	37
Investments in subsidiaries		-	-	76,607	76,607
Lease prepayments		1,262	1,276	-	-
Intangible assets	(a)	243,000	243,399	-	-
		291,866	292,754	76,641	76,644
Current assets					
Inventories		16,965	17,178	-	-
Trade and bills receivables		9,076	5,918	-	-
Other receivables, prepayments and deposits		26,790	28,231	23,219	23,186
Due from subsidiaries (non-trade)		-	-	149,421	149,421
Due from related parties		3,123	2,293	-	-
Cash and cash equivalents		169,988	199,728	25,730	27,872
		225,942	253,348	198,370	200,479
Total assets		517,808	546,102	275,011	277,123
Equity					
Share capital		144,975	144,975	144,975	144,975
Reserves		15,948	15,948	-	-
Accumulated profits/(losses)		116,972	115,256	(19,328)	(16,190)
		277,895	276,179	125,647	128,785
Minority interests	(b)	30,405	31,176	-	-
Total equity		308,300	307,355	125,647	128,785

Non-current liabilities					
Redeemable Convertible Cumulative Preference Shares	(c)	135,887	135,507	135,887	135,451
Deferred tax liabilities		15,358	15,372	-	-
		151,245	150,879	135,887	135,451
Current liabilities					
Trade and other payables		39,977	37,937	2,115	3,366
Secured bank loan		-	30,000	-	-
Due to related parties		8,191	11,644	2,607	2,607
Redeemable Convertible Cumulative Preference Shares (current portion)		8,755	6,858	8,755	6,914
Current tax payable		1,340	1,429	-	-
		58,263	87,868	13,477	12,887
Total liabilities		209,508	238,747	149,364	148,338
Total equity and liabilities		517,808	546,102	275,011	277,123

Notes :

- (a) Intangible assets comprise mainly of Deferred Development Cost with carrying value of RMB10,896,000. (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 31/12/2006: RMB19,182,000).
- (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. (“Hainan Star”), the wholly owned subsidiary of the Company, acquired 60% equity interest in Beijing Beida Shijia Technology Development Co. Ltd. (北大世佳科技开发有限公司) (“Beida Shijia”) for a consideration of RMB55,000,000. The acquisition resulted in an increase in minority interest. The identifiable assets acquired comprise mainly intangible assets of RMB103,994,000, fixed assets of RMB348,000, inventory of RMB13,000, other payable of RMB26,989,000 and trade and other receivable of RMB12,426,000, determined on a provisional basis. The net cash outflow on acquisition of the Beida Shijia amount of RMB53,125,000, net of cash balance acquired.

Further to both sales and purchase agreements, Hainan Star also acquired 60% equity interest in Beijing Shijia JiuShengYuan Pharmaceutical Technology Co. Ltd. (北京世佳九生源药业科技有限公司) (“Shijia JiuShengYuan”) for a consideration of RMB4,600,000. The acquisition also resulted in an increase in minority interest. The identifiable assets acquired comprise mainly intangible assets of RMB2,744,000 and inventory of RMB20,325,000, fixed assets of RMB1,006,000, and trade and other receivable of RMB239,000, determined on a provisional basis. The net cash inflow on acquisition of the Shijia JiuShengYuan amount of RMB2,505,000, net of cash balance acquired.

The provisional goodwill that results from the difference between the purchase price and the adjusted carrying amounts of the assets and liabilities acquired from these two subsidiaries amounts to RMB19,182,000.

- (c) 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 31 March 2008		As at 31 December 2007	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
-	-*	30,000	-

Amount repayable after one year

As at 31 March 2008		As at 31 December 2007	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
-	144,642	-	142,365

Details of any collateral:

* The bank loan is secured over Hainan STAR's assets amounted to Nil. (At 31/12/2007: RMB30,000,000)

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	
	Period ended 31 March 2008	Period ended 31 March 2007
Cash flow from operating activities		
Profit before tax	1,517	23,131
Adjustments for:		
Amortization of deferred development costs	607	132
Amortization of lease prepayment	14	33
Amortization of RCPS transaction cost	380	380
Depreciation of property, plant and equipment	1,618	2,140
Interest expense	7	479
Interest income	(1,470)	(603)
Dividend on RCPS	1,897	1,737
Operating profit before working capital changes	4,570	27,429
Changes in working capital		
Inventories	213	(2,641)
Trade and bills receivables	(3,158)	(17,298)

Other receivables, prepayments and deposits	1,441	128,372
Trade and other payables	2,147	11,313
Cash generated from operations	5,213	147,175
Income tax paid	(661)	(1,641)
Net cash (used in) / generated from operating activities	4,552	145,534
Cash flows from investing activities		
Payments for product development in progress	(208)	(1,667)
Purchase of property, plant and equipment	(1,143)	(1,197)
Net cash outflow on acquisition of subsidiaries	-	(27,790)
Interest received	1,470	603
Net cash generated from/(used in) investing activities	119	(30,051)
Cash flows from financing activities		
Advances from a related party	-	10,228
Repayment to related parties	(4,404)	-
Advances from third parties	-	31,356
Repayment of bank loan, net	(30,000)	-
Interest paid	(7)	(476)
Net cash generated from financing activities	(34,411)	41,108
Net (decrease)/increase in cash and cash equivalents	(29,740)	156,591
Cash and cash equivalents at beginning of the period	199,728	63,887
Cash and cash equivalents at end of the period	169,988	220,478

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	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	-	-	-	-	15,473	15,473
Net profit for the period	-	-	21,419	21,419	156	21,575
Transfer	-	-	(181)	(181)	181	-
At 31 March 2007	144,975	12,225	134,988	292,188	45,976	338,164

At 1 January 2008	144,975	15,948	115,256	276,179	31,176	307,355
Net profit for the period	-	-	1,716	1,716	(771)	945
At 31 March 2008	144,975	15,948	116,972	277,895	30,405	308,300

Company	Share capital	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2007	144,975	16,758	161,733
Net loss for the period	-	(2,958)	(2,958)
At 31 March 2007	144,975	13,800	158,775
At 1 January 2008	144,975	(16,190)	128,785
Net loss for the period	-	(3,138)	(3,138)
At 31 March 2008	144,975	(19,328)	125,647

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.

There were no treasury shares as at 31 March 2008 and 31 December 2007.

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	
	3 months ended 31 March 2008	3 months ended 31 March 2007
Net profit for the period (RMB'000)	1,716	21,419
No. of ordinary shares used in calculation of basic earning per share	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)	0.7	9.1
(b) On a fully diluted basis (in RMB cents)	0.7	9.1

- After the launch of IPO on 15 February 2006 and the issuance of 46,668,000 RCPS on 29 December 2006.
- For the financial period ended 31 March 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	
	3 months ended 31 March 2008	Year ended 31 December 2007	3 months ended 31 March 2008	Year ended 31 December 2007
Net asset value per ordinary share capital at the end of the period (in RMB cents)	118.7	117.9	53.7	55

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

In 1Q08, the pharmaceutical industry in the PRC continued to be plagued by ongoing restructuring and consolidation led by regulatory reforms initiated by the PRC authorities to improve transparency and healthcare industry structure. Exports also took a dive as the Group reckoned with the negative foreign perceptions generalised by a series of counterfeit drug scandals involving other drug-makers in the PRC.

Revenue

Group revenue dipped 38% from RMB42.2 million in 1Q07 to RMB26.3 million in 1Q08 owing to ongoing regulatory reforms of the PRC and lackluster export market.

	3 months ended 31 March 2008	3 months ended 31 March 2007	Change	
	RMB'000	RMB'000	%	RMB'000
Antibiotics	17,655	27,331	(35)	(9,676)
Cardiovascular drugs and cerebrovascular drugs	3,173	7,496	(58)	(4,323)
Other specialized drugs	5,344	6,431	(17)	(1,087)
TCM R&D	138	981	(86)	(843)
Total	26,310	42,239	(38)	(15,929)

Antibiotics sales fell 35% to RMB17.7 million in 1Q08 dragged by decreased Cerebroprotein Hydrolysate Injection sales. This was as the average antibiotics selling price declined due to government price control on antibiotics. Antibiotics remained the largest revenue contributor, accounting for 67% of Group revenue in 1Q08.

Sales of cardiovascular drugs and cerebrovascular drugs slipped 58% to RMB3.2 million in 1Q08 attributable to the drop in export sales of major products, Azithromycin Aspartate Injection and Sulbactam Sodium Injection, indirectly 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 declined 17% to RMB5.3 million in 1Q08 mainly on lower sales of major product, Potassium Sodium Dehydroandrographolide Succinate for Injection.

The new TCM R&D segment - upfront fee and share of future profit from preliminary TCM R&D results - registered an 86% reduction in revenue of RMB0.1 million in 1Q08 as there was no new sales of preliminary drugs during the period.

Profitability

Gross profit fell 58% from RMB30.2 million in 1Q07 to RMB12.6 million in 1Q08 on lower sales and gross margin. Gross margin contracted from 71.6% in 1Q07 to 47.8% in 1Q08 mainly due to the lower selling prices of antibiotics and higher raw material prices.

Selling and distribution expenses rose from RMB2.0 million in 1Q07 to RMB3.9 million in 1Q08 due to increased sales and promotion activities and staff force.

Administrative expenses increased from RMB4.1 million in 1Q07 to RMB6.9 million in 1Q08. 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 RMB5.5 million comprised interest income. Financial expenses fell from RMB2.2 million in 1Q07 to RMB1.9 million in 1Q08 mainly due to loan repayment.

Minority interest reversed from RMB0.2 million in 1Q07 to negative RMB0.8 million in 1Q08 due to losses from 60%-owned subsidiaries, Beida Shijia and Shijia Jiushengyuan.

Overall, Group net profit attributable to equity holders fell 92% to RMB1.8 million in 1Q08 from RMB21.4 million in 1Q07.

Financial Position

(31 March 2008 vs. 31 December 2007)

Total non-current assets fell marginally from RMB292.8 million to RMB291.9 million. Property, plant and equipment decreased from RMB48.1 million to RMB47.6 million due to depreciation. Intangibles assets also moderated from RMB243.4 million to RMB243.0 million as a result of amortization and disposal of some of the intangible assets.

Current assets declined from RMB253.3 million to RMB225.9 million. Inventories decreased from RMB17.2 million to RMB17.0 million owing to inventory control measures amidst the ongoing industry restructuring and lower sales. Trade receivables rose from RMB5.9 million to RMB9.1 million due to delay of payments from certain customers. Other receivables, prepayments and deposits dropped from RMB28.2 million to RMB26.8 million mainly attributed to better debt collection control. Cash and cash equivalents fell from RMB199.7 million to RMB170.0 million as the Group repaid RMB30.0 million in bank loans.

Current liabilities fell from RMB87.9 million to RMB58.3 million. Trade and other payables rose from RMB37.9 million to RMB40.0 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 during the quarter leaving no further bank loan outstanding as of 31 March 2008. Amount due to related parties also declined from RMB11.6 million to RMB8.2 million due to repayment.

Non-current liabilities rose from RMB150.9 million to RMB151.2 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

Despite challenges of the current soft export market and restructuring domestic market, prospects of the PRC healthcare industry remain positive due to ageing population, improving standard of living, government-led promotion of the healthcare industry such as the Cooperative Medical Schemes to widen accessibility of basic healthcare, 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.

The Group remains committed in its focus on profitability and growth through product quality enhancement, new product R&D, facility upgrades, proactive sales & marketing efforts and expanding sales team & distribution network. Upgrades of its manufacturing facilities and warehouse are ongoing to comply with the more stringent requirements of the GMP, produce highest quality drugs and to prepare for future launches of drugs upon successful application.

The Group continues to waste no time in new drug development. It 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 made good development process at various stages during last financial year at our TCM research subsidiaries, Beida Shijia and Shijia Jiushengyuan, and are expected to continue to make further progress this year. As we continue to carry out clinical trials of each of these drugs, development cost will be incurred. However in the medium term, the Group believes modern TCM will build up our core competence and expects the new modern TCM products to further add to Group's future performance.

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 targets to complete the acquisition in 3Q08 subject to shareholder's approval.

The Group sees no adverse impact on its operations in China caused by the recent earthquake in Sichuan Province.

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.

Not applicable.

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 First Quarter Results of the Group for the financial period ended 31 March 2008 to be false or misleading in any material respect.

By Order of the Board

**Wong Kai
Chairman
14 May 2008**