



STAR STAR PHARMACEUTICAL LIMITED
 Registration No. 200500429W

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

UNAUDITED THIRD QUARTER FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2007

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 2007 (a)	3 months ended 30 September 2006 (b)	Increase/ (decrease) +/- (a) – (b)	9 months ended 30 September 2007 (a)	9 months ended 30 September 2006 (b)	Increase/ (decrease) +/- (a) – (b)
Revenue	31,474	33,869	(7)	99,532	113,335	(12)
Cost of sales	(13,367)	(12,384)	8	(40,419)	(38,802)	4
Gross Profit	18,107	21,485	(16)	59,113	74,533	(21)
Other income	534	1,145	(53)	1,397	2,160	(35)
Selling and distribution expenses	(2,154)	(1,417)	52	(6,745)	(5,490)	23
Administrative expenses	(6,112)	(3,778)	62	(15,449)	(11,020)	40
Other expenses	(37)	(441)	(92)	(2,463)	(816)	202
Profit from operations	10,338	16,994	(39)	35,853	59,367	(40)
Financial income	1,744	-	N.m.	2,606	-	N.m.
Financial expenses	(2,861)	(414)	591	(8,297)	(1,203)	590
Profit before taxation	9,221	16,580	(44)	30,162	58,164	(48)
Taxation	(416)	(1,382)	(70)	(2,359)	(3,748)	(37)
Profit for the period	8,805	15,198	(42)	27,803	54,416	(49)
Attributable to:						
Equity holders of the parent	6,221	15,210	(59)	25,076	54,428	(54)
Minority interest	2,584	(12)	N.m.	2,727	(12)	N.m.
Profit for the period	8,805	15,198	(42)	27,803	54,416	(49)
Earnings per share (RMB cents)						
- Basic (weighted average)	2.7	6.5		10.7	24.1	
- Fully diluted	2.7	6.5		10.7	24.1	

*N.m: Not meaningful

Notes to the Income Statement:

	Group		Group	
	RMB'000		RMB'000	
	3 months ended 30 September 2007	3 months ended 30 September 2006	9 months ended 30 September 2007	9 months ended 30 September 2006
Profit before taxation includes the following:				
Other income including Value Added Tax (“VAT”) refund, government subsidies, interest income and net exchange gain	187	1,145	1,397	2,160
Interest on borrowings	(2,861)	(414)	(8,297)	(1,203)
Depreciation and amortization expenses	(4,809)	(2,535)	(10,219)	(7,755)

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-07 RMB'000	31-Dec-06 RMB'000	30- Sep-07 RMB'000	31-Dec-06 RMB'000
Non-current assets					
Property, plant and equipment		48,235	45,532	30	37
Investment in subsidiaries		-	-	76,607	76,607
Lease prepayments		1,256	1,333	-	-
Intangible assets	(a)	272,823	246,140	-	-
		322,314	293,005	76,637	76,644
Current assets					
Inventories		14,707	9,575	-	-
Due from subsidiary		-	-	151,033	72,938
Trade and bills receivables		12,876	17,481	-	-
Other receivables, prepayments and deposits		36,082	140,915	30,178	137,004
Due from ultimate holding company		130	-	-	-
Amount due from related corporations		16	11,627	-	10,228
Cash and cash equivalents		219,616	66,467	21,797	4,896
		283,427	246,065	203,008	225,066
Total assets		605,741	539,070	279,645	301,710
Equity					
Share capital		144,975	144,975	144,975	144,975
Reserves		12,225	12,225	-	-
Accumulated profits/(losses)		147,545	113,750	(9,021)	16,758
		304,745	270,950	135,954	161,733
Minority interests	(b)	44,932	30,166	-	-
Total equity		349,677	301,116	135,954	161,733

Non-current liabilities					
Redeemable Convertible Cumulative Preference Share	(c)	140,176	135,070	140,176	135,070
Deferred tax liabilities		7,219	15,430	-	-
		147,395	150,500	140,176	135,070
Current liabilities					
Trade and other payables		41,211	40,005	908	2,295
Secured bank loan	(d)	59,850	29,850	-	-
Provision for legal claim		-	2,000	-	-
Amount due to related corporations		4,802	12,497	2,607	2,607
Current tax payable		2,806	3,102	-	5
		108,669	87,454	3,515	4,907
Total liabilities		256,064	237,954	143,691	139,977
Total equity and liabilities		605,741	539,070	279,645	301,710

Notes :

- (a) Intangible assets comprise mainly of Deferred Development Cost with carrying value of RMB13,526,000 (At 31/12/2006: RMB13,507,000) and Product Development in Progress of RMB240,116,000 (At 31/12/2006: RMB213,451,000).
- (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. The total proceeds were received subsequent to year end.
- (d) The Company obtained a secured one year term loan from a bank to repay the loans owed to ultimate holding company, Harvest Year Group Limited (“Harvest Year”).

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 2007		As at 31 December 2006	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
60,000*	607	29,850	607

Amount repayable after one year

As at 30 September 2007		As at 31 December 2006	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
-	138,000	-	135,070

Details of any collateral:

* The bank loan is secured over Hainan STAR's assets amounted to RMB60,000,000. (At 31/12/2006: RMB29,850,000)

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	
	9 months ended 30 September 2007	9 months ended 30 September 2006
Cash flow from operating activities		
Profit before taxation	30,162	58,164
Adjustments for:		
Amortization of deferred development costs	4,145	3,620
Amortization of lease prepayment	77	57
Loss on disposal of property, plant and equipment	-	138
Depreciation of property, plant and equipment	5,997	4,078
Interest expense	8,297	1,203
Interest income	(2,606)	(559)
Operating profit before working capital changes	46,072	66,701
Changes in working capital:		
Inventories	(3,872)	2,220
Trade and bills receivables	4,605	(24,541)
Other receivables, prepayments and deposits	132,965	12,936
Trade and other payables	22,186	(11,943)

Cash generated from operations	201,956	45,373
Income tax paid	(2,656)	(1,966)
Cash flows from operating activities	199,300	43,407
Cash flows from investing activities		
Payments for product development in progress	(21,060)	(15,526)
Purchase of property, plant and equipment	(9,377)	(4,367)
Proceeds from disposal of property, plant and equipment	-	131
Deposit paid for acquisition of a subsidiary	(21,095)	-
Net cash outflow on acquisition of a subsidiary	-	(53,125)
Fixed Deposit	(6,952)	-
Interest received	2,606	559
Net cash used in investing activities	(55,878)	(72,328)
Cash flows from financing activities		
Proceeds from issue of shares	-	81,419
Repayment from a related party	11,395	-
Repayment of loan from immediate holding company	-	(14,608)
Repayment due to related parties	(5,588)	-
Advance from bank loan	30,000	-
Dividend Paid	(15,203)	-
Interest paid	(8,297)	(1,203)
Net cash generated from financing activities	12,307	65,608
Net increase in cash and cash equivalents	155,729	36,687
Cash and cash equivalents at beginning of the period	63,887	28,944
Cash and cash equivalents at end of the period	219,616	65,631

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 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
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

Company	Share capital	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000
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
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

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.

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.

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 2006.

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 2007 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 2007	3 months ended 30 September 2006	9 months ended 30 September 2007	9 months ended 30 September 2006
Net profit for the period (RMB'000)	6,221	15,210	25,076	54,428
No. of ordinary shares used in calculation of basic earning per share	234,125,000	234,125,000*	234,125,000	226,320,833
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)	2.7	6.5	10.7	24.1
(b) On a fully diluted basis (in RMB cents)	2.7	6.5	10.7	24.1

* - after the launch of IPO on 15 February 2006 and the issuance of 46,668,000 RCPS on 29 December 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 year reported on ; and
(b) immediate preceding financial year.

	Group		Company	
	9 months ended 30 September 2007	Year ended 31 December 2006	9 months ended 30 September 2007	Year ended 31 December 2006
Net asset value per ordinary share capital at the end of the period (in RMB cents)	130.2	115.7	58.1	69.1

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 managed to achieve RMB8.8 million in net profit for 3Q07 against the backdrop of ongoing restructuring and consolidation in the PRC pharmaceutical industry led by regulatory reforms initiated by the PRC authorities to improve transparency and healthcare industry structure.

Revenue

Group revenue fell 7% from RMB33.9 million in 3Q06 to RMB31.5 million in 3Q07 amidst difficult business conditions.

	3 months ended 30 September 2007	3 months ended 30 September 2006	Change		9 months ended 30 September 2007	9 months ended 30 September 2006	Change	
	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	%	RMB'000
Antibiotics	15,126	14,510	4	616	60,453	57,686	5	2,767
Cardiovascular drugs and cerebrovascular drugs	2,291	6,619	(65)	(4,328)	12,124	21,612	(44)	(9,488)
Other specialized drugs	7,133	12,740	(44)	(5,607)	18,620	34,037	(45)	(15,417)
TCM R&D	6,924	-	100.	6,924	8,335	-	100	8,335
Total	31,474	33,869	(7)	(2,395)	99,532	113,335	(12)	(13,803)

Antibiotics continued to ring in rise in sales volume on growing demand, especially for key product, Azithromycin Aspartate Lyophilised Powder for Injection. Antibiotics sales increased 4% to RMB15.1 million in 3Q07 despite decrease in average antibiotics selling price led by government price control on antibiotics. Antibiotics remained the largest revenue contributor, accounting for 48.1% of Group revenue in 3Q07.

Sales of cardiovascular drugs and other specialised drugs fell 65% to RMB2.3 million in 3Q07 as sales of major products, Cerebroprotein Hydrolysate Injection dropped on lower export sales indirectly due to scandals of counterfeit drugs from other medicine manufacturers in the PRC, which affected general foreign perception of drugs produced in the PRC.

Sales of other specialized drugs declined 44% to RMB7.1 million in 3Q07 mainly on decrease in sales of major product, Potassium Sodium Dehydroandrographolide Succinate for Injection.

New revenue segment, TCM R&D - upfront fee and share of future profit from preliminary TCM R&D results - charged ahead with a strong RMB6.9 million in revenue contribution in 3Q07. This is up substantially from the maiden RMB1.0 million sales registered in 1Q07 and RMB0.4 million recorded in 2Q07. TCM R&D constituted a significant 23% of Group revenue in 3Q07. This new growth driver is expected to add considerably to future earnings after this gestation period.

Profitability

Gross profit fell 16% from RMB21.5 million in 3Q06 to RMB18.1 million in 3Q07 on lower sales.

Selling and distribution expenses rose from RMB1.4 million in 3Q06 to RMB2.2 million in 3Q07 due to increased sales and promotion activities.

Administrative expenses increased 62% to RMB6.1 million in 3Q07. This was due to higher salary expenses as new staff were hired to support the Group's expansion plans, higher depreciation & amortization expenses, audit fee and professional expenses resulting from increased business and R&D activities and the Company's listing status. In addition, the consolidation of the expenses of Beida Shijia and Beijing Shijia Jiushengyuan Pharmaceutical Technology Co., Ltd. (北京世佳九生源药业科技有限公司) ("Shijia Jiushengyuan") acquired on 31 August 2006 and 31 October 2006 respectively also added to this quarter's expenditures.

Finance income of RMB1.7 million comprised interest income (included in "other revenue" in 3Q06). Finance expenses of RMB2.9 million comprised mainly dividend payable on the Redeemable Convertible Cumulative Preference Shares ("RCPS") issued in December 2006.

Minority interest arose due to maiden contributions from 60%-owned subsidiaries, Beida Shijia and Shijia Jiushengyuan.

Due to the above, Group net profit fell 42% to RMB8.8 million in 3Q07 from RMB15.2 million in 3Q06.

Financial Position

(30 September 2007 vs. 31 December 2006)

Total non-current assets rose from RMB293.0 million to RMB322.3 million. This was mainly due to purchases of new drug production machineries and office equipment, as well as the capitalization of intangibles assets, i.e. new product R&D expenses and product development costs, pursuant to the acquisitions of Beida Shijia and Beida JiuShengYuan.

Current assets increased from RMB246.1 million to RMB282.4 million. Inventories rose from RMB9.6 million to RMB14.7 million in accordance with GMP requirements of carrying two months' inventory for inspection and test purposes as well as in preparation for the last quarter due to greater demand for antibiotics based on our past experience. Trade receivables decreased to RMB12.9 million from RMB17.5 million in line with lower sales. Investment deposit of RMB23.1 million comprised mainly deposits paid for two potential acquisitions. Cash and cash equivalents jumped to RMB219.6 million from RMB66.5 million on positive operating cash flow generated in 9M07 and proceeds from RCPS issued in December 2006.

Current liabilities rose to RMB108.7 million from RMB87.5 million. Trade and other payables increased to RMB41.2 million from RMB40.0 million due to accrual of staff bonus. Additional bank loan was taken up to partially repay the loan due to Harvest Year Group Limited.

Non-current liabilities fell to RMB147.4 million from RMB150.5 million mainly due to lower deferred tax liabilities.

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

With the industry restructuring still underway, the Group expects the reforms to benefit well-established pharmaceutical manufacturer like the Group in the long run.

Despite soft export sales, the Group had been churning out robust domestic sales buoyed by the booming healthcare industry in the PRC. The Group remains positive about its domestic sales pillar as it further penetrates into existing market and develops new markets with strong product pipeline, active sales and marketing initiatives and potential strategic acquisitions.

New drug development is progressing on track with 2 major drugs currently in phase III clinical trial, including the Category I drug to improve immune system, which the Group targets to launch in 2008 subject to government approval.

One of the Group's major antibiotic products, Azithromycin Aspartate, was recently patented for its unique chemical compound structure in the lyophilized powder form. This will help strengthen the sales price of this leading product and solidify the Group's market position.

Recently acquired TCM research subsidiaries, Beida Shijia and Shijia Jiushengyuan, will continue to boost Group's earnings ahead. To seize the opportunities galore in the vibrant TCM-formulated drug market, 14 new TCM-formulated drugs are currently at various stages of development at Beida Shijia and Shijia Jiushengyuan. The Group believes that modern TCM will be its core competitive strength and growth driver going forward.

11. Dividend

(a) Current Financial Period Reported On

Ordinary Shares:

Any dividend declared for the current financial period reported on?

No.

(b) Corresponding Period of the immediately preceding financial year

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

No.

(c) Date payable

Not applicable.

(d) Book Closure Date

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 Third Quarter Results of the Group for the financial period ended 30 September 2007 to be false or misleading in any material respect.

By Order of the Board

Wong Kai
Chairman
13 November 2007