



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 HALF YEAR FINANCIAL STATEMENT AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 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 June 2007 (a)	3 months ended 30 June 2006 (b)	Increase/ (decrease) +/- (a) – (b)	6 months ended 30 June 2007 (a)	6 months ended 30 June 2006 (b)	Increase/ (decrease) +/- (a) – (b)
Revenue	25,819	48,992	(47)	68,058	79,466	(14)
Cost of sales	(15,056)	(14,235)	6	(27,052)	(26,418)	2
Gross Profit	10,763	34,757	(69)	41,006	53,048	(23)
Other income	444	668	(34)	1,210	1,015	19
Selling and distribution expenses	(2,636)	(1,157)	128	(4,591)	(4,073)	13
Administrative expenses	(5,264)	(3,745)	41	(9,337)	(7,242)	29
Other expenses	(2,536)	(79)	3,110	(2,773)	(375)	639
(Loss)/Profit from operations	(771)	30,444	(97)	25,515	42,373	(40)
Financial income	259	-	N.m*	862	-	N.m
Financial expenses	(3,220)	(378)	752	(5,436)	(789)	589
(Loss)/Profit before taxation	(2,190)	30,066	(107)	20,941	41,584	(50)
Taxation	(387)	(1,365)	(72)	(1,943)	(2,366)	(18)
(Loss)/Profit for the period	(2,577)	28,701	(109)	18,998	39,218	(52)
Attributable to:						
Equity holders of the parent	(2,564)	28,701	(109)	18,855	39,218	(52)
Minority interest	(13)	-	N.m	143	-	N.m
(Loss)/Profit for the period	(2,577)	28,701	(109)	18,998	39,218	(52)
Earnings per share (RMB cents)						
- Basic (weighted average)	(1.1)	12.3		8.1	17.6	
- Fully diluted	(1.1)	12.3		8.1	17.6	

*N.m: Not meaningful

Notes to the Income Statement:

	Group		Group	
	RMB'000		RMB'000	
	3 months ended 30 June 2007	3 months ended 30 June 2006	6 months ended 30 June 2007	6 months ended 30 June 2006
Profit before taxation includes the following:				
Other income including Value Added Tax ("VAT") refund, government subsidies, interest income and net exchange gain	444	668	1,210	1,015
Interest on borrowings	(3,220)	(375)	(5,436)	(789)
Depreciation and amortization expenses	(2,725)	(2,754)	(5,410)	(5,220)

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-Jun-07 RMB'000	31-Dec-06 RMB'000	30-Jun-07 RMB'000	31-Dec-06 RMB'000
Non-current assets					
Property, plant and equipment		47,436	45,532	32	37
Investment in subsidiaries		-	-	76,607	76,607
Lease prepayments		1,269	1,333	-	-
Intangible assets	(a)	271,217	246,140	-	-
		319,922	293,005	76,639	76,644
Current assets					
Inventories		13,493	9,575	-	-
Due from subsidiary		-	-	151,033	72,938
Trade and bills receivables		15,281	17,481	-	-
Other receivables, prepayments and deposits		38,375	140,915	31,129	137,004
Due from ultimate holding company		130	-	-	-
Amount due from related corporations		205	11,627	-	10,228
Cash and cash equivalents		214,918	66,467	21,786	4,896
		282,402	246,065	203,948	225,066
Total assets		602,324	539,070	280,587	301,710
Equity					
Share capital		144,975	144,975	144,975	144,975
Reserves		12,225	12,225	-	-
Accumulated profits/(losses)		141,324	113,750	(6,595)	16,758
		298,524	270,950	138,380	161,733
Minority interests	(b)	42,348	30,166	-	-
Total equity		340,872	301,116	138,380	161,733

Non-current liabilities					
Redeemable Convertible Cumulative Preference Share	(c)	138,458	135,070	138,458	135,070
Deferred tax liabilities		7,208	15,430	-	-
		145,666	150,500	138,458	135,070
Current liabilities					
Trade and other payables		47,668	40,005	1,137	2,295
Secured bank loan	(d)	59,851	29,850	-	-
Provision for legal claim		-	2,000	-	-
Amount due to related corporations		5,620	12,497	2,607	2,607
Current tax payable		2,647	3,102	5	5
		115,786	87,454	3,749	4,907
Total liabilities		261,452	237,954	142,207	139,977
Total equity and liabilities		602,324	539,070	280,587	301,710

Notes :

- (a) Intangible assets comprise of Deferred Development Cost with carrying value of RMB13,854,000 (At 31/12/2006: RMB13,507,000) and Product Development in Progress of RMB238,181,000 (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 June 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 June 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.

Group	RMB'000	
	6 months ended 30 June 2007	6 months ended 30 June 2006
Cash flow from operating activities		
Profit before taxation	20,941	41,584
Adjustments for:		
Amortization of deferred development costs	1,561	2,493
Amortization of lease prepayment	64	32
Loss on disposal of property, plant and equipment	-	138
Depreciation of property, plant and equipment	3,785	2,695
Interest expense	5,436	789
Interest income	(863)	(243)
Operating profit before working capital changes	30,924	47,488
Changes in working capital:		
Inventories	(3,918)	(1,831)
Trade and bills receivables	2,200	(24,927)
Other receivables, prepayments and deposits	130,106	1,169
Trade and other payables	3,236	(8,373)

Cash generated from operations	162,548	13,526
Income tax paid	(2,397)	(767)
Cash flows from operating activities	160,151	12,759
Cash flows from investing activities		
Payments for product development in progress	(10,732)	(13,443)
Purchase of property, plant and equipment	(5,806)	(3,822)
Proceeds from disposal of property, plant and equipment	-	131
Deposit paid for acquisition of an investment	(9,056)	(20,000)
Fixed Deposit	(7,863)	-
Interest received	863	243
Net cash used in investing activities	(32,594)	(36,891)
Cash flows from financing activities		
Proceeds from issue of shares	-	81,419
Repayment from a related party	10,228	-
Repayment of loan from immediate holding company	-	(14,666)
Advance from bank loan	30,000	-
Dividend Paid	(15,203)	-
Interest paid	(1,551)	(789)
Net cash generated from financing activities	23,474	65,964
Net increase in cash and cash equivalents	151,031	41,832
Cash and cash equivalents at beginning of the period	63,887	28,944
Cash and cash equivalents at end of the period	214,918	70,776

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.

<u>Group</u>	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)
Net profit for the period	-	-	-	39,218	39,218	-	39,218

Transfer	-	4,226	-	(4,226)	-	-	-
At 30 June 2006	144,975	10,025	4	101,158	256,162	-	256,162
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	-	-	-	18,855	18,855	143	18,998
Dividend Paid	-	-	-	(15,203)	(15,203)	-	(15,203)
Transfer	-	-	-	23,922	23,922	(23,922)	-
At 30 June 2007	144,975	12,225	-	141,324	298,524	42,348	340,872

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	-	(2,477)	(2,477)
At 30 June 2006	144,975	(4,969)	140,006
At 1 January 2007	144,975	16,758	161,733
Net loss for the period	-	(8,150)	(8,150)
Dividend Paid	-	(15,203)	(15,203)
At 30 June 2007	144,975	(6,595)	138,380

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 June 2007	3 months ended 30 June 2006	6 months ended 30 June 2007	6 months ended 30 June 2006
Net profit for the period (RMB'000)	(2,564)	28,701	18,855	39,218
No. of ordinary shares used in calculation of basic earning per share	234,125,000	234,125,000*	234,125,000	222,418,750
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)	(1.1)	12.3	8.1	17.6
(b) On a fully diluted basis (in RMB cents)	(1.1)	12.3	8.1	17.6

* - 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	
	6 months ended 30 June 2007	Year ended 31 December 2006	6 months ended 30 June 2007	Year ended 31 December 2006
Net asset value per ordinary share capital at the end of the period (in RMB cents)	127.5	115.7	59.1	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

During the quarter, the PRC pharmaceutical industry continued to undergo restructuring and consolidation as the PRC authorities carried on with regulatory reforms to improve transparency and healthcare industry structure. Group performance was adversely affected in 2Q07 by government price control of antibiotics and lower export sales indirectly due to scandals of counterfeit drugs from other medicine manufacturers in the PRC. With the industry restructuring still underway, the Group expects current quarter's hiccup to be temporary as the reforms will benefit well-established pharmaceutical manufacturer like the Group in the long run.

Revenue

In 2Q07, revenue fell 47% from RMB50.0 million in 2Q06 to RMB25.8 million.

	3 months ended 30 June 2007	3 months ended 30 June 2006	Change		6 months ended 30 June 2007	6 months ended 30 June 2006	Change	
	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	%	RMB'000
Antibiotics	17,996	27,264	(34)	(9,268)	45,327	43,176	5	2,151
Cardiovascular drugs and cerebrovascular drugs	2,337	9,781	(76)	(7,444)	9,833	14,993	(34)	(5,160)
Other specialized drugs	5,056	11,947	(58)	(6,891)	11,487	21,297	(46)	(9,810)
TCM R&D	430	-	100	430	1,411	-	100	1,411
Total	25,819	48,992	(47)	(23,173)	68,058	79,466	(14)	(11,408)

Demand for the Group's antibiotics products continued to rise during the quarter resulting in an increase in antibiotics sales volume in 2Q07, especially for key product, Azithromycin Aspartate Lyophilised Powder for Injection. This was however offset by decrease in average antibiotics selling price led by government price control on antibiotics. Overall, antibiotics sales dropped 34% to RMB18.0 million in 2Q07. Antibiotics remained the largest revenue contributor, accounting for 69.7% of Group revenue in 2Q07.

Cardiovascular drugs and other specialised drugs segments also registered lower sales during the quarter on decreased export sales indirectly due to incidents of fake drugs from other medicine manufacturers in the PRC, which affected general foreign perception of drugs produced in the PRC. Cardiovascular drugs and cerebrovascular drugs sales fell 76% to RMB2.3 million in 2Q07 as sales of major product, Cerebroprotein Hydrolysate Injection dropped. Sales of other specialized drugs declined 58% to RMB5.1 million in 2Q07 mainly on decrease in sales of major product, Potassium Sodium Dehydroandrographolide Succinate for Injection.

After ringing in strong maiden contribution in 1Q07, new subsidiary, Beida Shijia, continued to contribute positively this quarter with RMB0.4 million in revenue under the new TCM R&D revenue segment for sales of preliminary R&D results for an upfront fee and future profit sharing.

Profitability

Gross profit fell 69% from RMB34.8 million in 2Q06 to RMB10.8 million in 2Q07 on lower sales.

Selling and distribution expenses rose from RMB1.2 million in 2Q06 to RMB2.6 million in 2Q07 due to increased sales and promotion activities.

Administrative expenses increased 41% to RMB5.3 million in 2Q07. 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 activities, as well as 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.

Finance income comprised interest income (included in "other revenue" in 2Q06). Finance expenses 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.

Overall, the Group incurred net loss of RMB2.6 million in 2Q07 compared to net profit of RMB28.7 million in 2Q06.

Financial Position

(30 June 2007 vs. 31 December 2006)

Total non-current assets rose from RMB293.0 million to RMB319.9 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 RMB13.5 million due to increase in sales volume despite decrease in revenue. Trade receivables decreased to RMB15.3 million from RMB17.5 million in line with lower sales. Other receivables, prepayments and deposits included an investment deposit of RMB23.1 comprising mainly deposits paid for two potential acquisitions. Cash and cash equivalents jumped to RMB214.9 million from RMB66.5 million on positive operating cash flow generated in 1H07 and proceeds from RCPS issued in December 2006.

Current liabilities rose to RMB115.8 million from RMB87.5 million. Trade and other payables increased to RMB47.7 million from RMB40.0 million in line with higher business activities and 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 RMB145.7 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

Although this quarter's results were affected by the current restructuring and development in the PRC pharmaceutical industry, the Group is optimistic that the industry reforms are positive and beneficial to the industry in the long run.

To capitalize on the positive long-term industry growth potentials, the Group will continue to invest strategically in broadening its product range, expanding its production capacity and extending its distribution network.

Recently acquired Beida Shijia and Shijia Jiushengyuan will add positively to Group earnings after recording their maiden contributions in the first half of this year. Beida Shijia and Shijia JiuShengYuan currently have a total of 14 new TCM-formulated drugs under development, of which 2 are classified as "Category 1" drugs by the SFDA. The Group will continue its focus on TCM-formulated drugs R&D initiatives and actively test and seek regulatory approvals for these products to take advantage of the vibrant TCM-formulated drug market.

Due to regulatory reforms, approvals for new drugs have been delayed as a result of major changes at the SFDA. However, clinical trials and development remain on track. The Group is optimistic about the promising prospects of its many new drugs under development, clinical trials or regulatory clearance, such as the Category 1 drug that is now in phase III clinical trials, which will add positively to group's earnings when launched.

On 13 June 2007, the Group announced that it has entered into a non-legally binding Memorandum of Understanding with Shareholders of Elite View Group Limited for the possible acquisition of Elite View Group and its wholly owned subsidiary Hannah Holdings Pte Ltd. incorporated in Singapore. The Possible Acquisition will be subject to, among other things, the results of the Group's due diligence on and audited financial statements of Elite View Group Limited and its subsidiary, as well as the terms and

conditions, the amount and form of consideration payable and the execution and completion of the Formal Agreement. The Possible Acquisition will enable the Group to have a presence in the Southeast Asia region and expand into the brand development, management & distribution of consumer products in the health, beauty & lifestyle segment.

The Group will continue to enhance its position as a leading pharmaceutical manufacturer founded on innovation and quality and expects to be a long-term beneficiary of government measures on the current industry reform.

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

By Order of the Board

**Wong Kai
Chairman
14 August 2007**