For immediate release **28 September 2007**

Napo Pharmaceuticals, Inc
(“Napo” or “the Company”)

Interim Results for the Six Months Ended 30 June 2007

South San Francisco, California, 28 September 2007 – Napo Pharmaceuticals, Inc., (LSE: NAPL), which focuses on bringing proprietary products to the global marketplace in collaboration with local partners, today announces its interim results for the six months ended 30 June 2007.

Financial Highlights:

- Cash and short-term investment position of approximately US$14.1 million at 30 June 2007 compared with US$19.7 million at December 2006;
- Raised approximately US$5.9 million gross proceeds through the issuance of common stock to investors in late 2006 and early 2007; and
- Net loss attributable to common shareholders of US$10.3 million compared to US$5.6 million in the prior six month period ended 30 June 2006 is reflective of increased expenditures for CRO-HIV related trial expenses and other operating costs.

Operational Highlights:

- Reached agreement with the United States Food and Drug Administration (“FDA”) on the adaptive design of the CRO-HIV trial through the Special Protocol Assessment process to test multiple doses of crofelemer;
- Received approval from the principal independent review board "IRB" overseeing the pivotal, Phase 3 ADVENT study of crofelemer for diarrhoea in people living with HIV/AIDS;
- Entered into a license for a use patent and regulatory and other information regarding NP-500, a clinical stage product which in pre-clinical animal studies has been shown to benefit symptoms of type 2 diabetes and cardiovascular risk factors known as metabolic disease, and to mitigate risk of stroke. The compound has progressed through multi-dose Phase 1 testing and the Company has designed a proof of concept Phase 2 protocol;
- Received ethics committee approval for multiple dose continuation of the Phase 2 cholera trial with crofelemer in Bangladesh; and
- Entered into plant screening agreement with Nicholas Piramal for the screening of Napo’s library of plants for therapeutic indications

Commenting on Napo's results, Ms Lisa Conte, Chief Executive Officer of Napo Pharmaceuticals Inc, said:

"Our most important achievement is certainly obtaining agreement on the SPA with the FDA on the final Phase 3 for our fast-tracked indication of crofelemer for chronic diarrhoea in people living with HIV/AIDS (CRO-HIV). With the adaptive design allowing for multiple and lower dose testing and the collaborative effort the Company undertook with the FDA, the Company is taking every effort to minimize regulatory and commercial uncertainties upon the completion of this study. Napo is aiming for CRO-HIV NDA approval by the end of 2008."

About Napo

Napo Pharmaceuticals, Inc. focuses on the development and commercialisation of proprietary pharmaceuticals for the global marketplace in collaboration with local partners. Napo was founded in November 2001, and is based in California, USA with subsidiaries in Mumbai, India and London UK.

Napo's late-stage proprietary gastro-intestinal compound, crofelemer, is in various stages of clinical development for four distinct product indications, including a late-stage Phase 3 program:

1. CRO-HIV for AIDS diarrhoea, Phase 3
2. CRO-IBS for diarrhoea irritable bowel syndrome ("D-IBS"), Phase 2
3. CRO-ID for acute infectious diarrhoea (including cholera), Phase 2
4. CRO-PED for paediatric diarrhoea, Phase 1

The FDA has granted fast-track status to CRO-IBS and CRO-HIV.

Crofelemer, a proprietary patented agent, is extracted from Croton lechleri, a medicinal plant which can be sustainably harvested in several countries in South America. Napo also plans to develop an early clinical stage product, NP-500, for the treatment of insulin-resistant diseases of Type II diabetes and metabolic syndrome. Napo also has a plant library of approximately 2,300 medicinal plants from tropical regions, and Napo has entered two screening relationship associated with this collection. Currently, products are based on the chemical and biological diversity derived from plants with medicinal properties, but future products may be in-licensed from other sources.

Napo has partnerships with Trine Pharmaceuticals, Inc. of the United States of America; Glenmark Pharmaceuticals Limited of India; and AsiaPharm Group Ltd. of China. For more information please visit www.napopharma.com.

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Chief Executive Officer's Report

The first six months of 2007 were an important period in Napo's history. The Company was able to reach agreement with the FDA regarding the adaptive design of the CRO-HIV trial and look forward to its completion in 2008.

Napo took an important step in early 2007 when it licensed a use patent and a regulatory package for NP 500, a compound which has been shown to benefit symptoms of diabetes and metabolic disease. This was important because the Company was able to add a very promising Phase 2 compound for a multi billion dollar indication and, at the same time, provide our shareholders with additional product diversification. Napo plans to develop NP 500 through the Phase 2 trials, subject to available funds and later partner the final development of this indication through partnerships similar to those the Company has with crofelemer.

The latter half of 2008 will be an important period for Napo as the Company expects to receive results from its CRO-HIV trial, the CRO-IBS Phase 2b trial and the cholera trial.

I would also like to thank our shareholders for their support and patience in the first half of 2007 as the Company worked through its SPA process with the FDA and reconstituted our board with individuals with extensive pharmaceutical and financial experience.

Lisa A. Conte, Chief Executive Officer

September 2007

Operational Review

Highlights from the first six months of 2007 include the following:

CRO-IBS

In May 2007, Trine Pharmaceuticals, Inc. presented the results of a previously conducted Phase 2a proof-of-concept study of CRO-IBS at Digestive Disease Week in Washington DC. The trial was designed as a randomized double-blind placebo-controlled, dose-ranging (placebo, 125mg, 250mg, and 500 mg bid) study over a 12-week treatment period in 246 patients with d-IBS (Rome II criteria), including both males and females, whose average age was 50 years old.

The 125mg bid of crofelemer exhibited a consistent response during each month among most efficacy endpoints in women with d-IBS reaching statistical significance ($p<0.05$) for pain. As with previous trials of crofelemer, no drug-related serious adverse events were reported.

Conclusion: Crofelemer, 125 mg bid, was safe and led to significant improvement in pain, and trends toward improvement in adequate relief, stool frequency, and urgency. For a more thorough discussion of the results, see press release on www.napopharma.com dated 23 May 2007.

Trine is currently conducting a Phase 2b trial for CRO-IBS.

CRO-HIV

Napo obtained agreement with the United States Food and Drug Administration (FDA) under the Special Protocol Assessment (SPA) process for the design of its pivotal study protocol for crofelemer for the treatment of chronic diarrhoea in people with HIV/AIDS (CRO-HIV).

The study, also referred to as the ADVENT trial, will be carried out under an FDA Fast Track designation. On 16 January 2007 Napo met with the FDA under the Special Protocol Assessment Process on this adaptive design of its ADVENT trial.

On 14 March 2007 Napo announced it had received approval from the principal independent review board "IRB" overseeing the ADVENT trial.

The ADVENT trial - (Anti-Diarrhoea therapy in HIV disease-Emerging treatment concepts) is a randomised, double-blind, parallel-group, placebo-controlled, two-stage, adaptive design study to assess the efficacy and safety of crofelemer at 125mg, 250 mg, and 500 mg oral doses twice daily ("p.o.b.i.d") for the treatment of HIV-Associated diarrhoea.

Results from the CRO-HIV trial are anticipated in June 2008.

NP 500

Napo entered into a license for a use patent and regulatory and other information regarding NP-500, a clinical stage product which in pre-clinical animal studies has been shown to benefit symptoms of diabetes and cardiovascular risk factors known as metabolic disease, and to mitigate risk of stroke. NP-500 is a known compound with a novel mechanism of action relative to agents currently approved and in clinical testing. The compound has progressed through multi-dose Phase 1 testing.

The license will allow Napo to have access to the regulatory package filed with the United States Federal Drug Administration, and to access technology protected by a use patent in the United States. The license to the regulatory package, subject to available funds, provide the data to allow NP-500 to progress into Phase 2 proof of concept testing. Napo hopes to work with a partner to generate related proprietary compounds.

The consideration for the license consists of US$1.5 million plus milestone payments and royalties.

Cholera Trial

In March 2006 the Company initiated a clinical study for cholera in Bangladesh at the International Centre for Diarrhoeal Disease Research. An interim analysis of the safety data of the trial was conducted in late 2006. In May 2007, Napo received approval from the Ethics Committee at International Centre for Diarrhoeal Disease Research (ICDDR,B) in Bangladesh, to continue the Phase 2 trial of crofelemer (CRO-ID) for the treatment of secretory diarrhoea associated with cholera, at lowers doses and different formulation(s).

The ICDDR,B Centre treats approximately 100 thousand patients suffering from diarrhoea each year in its Dhaka hospital. The dose of crofelemer used in the first 61 patients was amongst the highest previously tested in patients, and it was administered in an experimental formulation. The initial study design was for one treatment arm compared to placebo.

On July 1, 2006, Napo was notified by the National Institutes of Health – National Institute of Allergy and Infectious Diseases that it had been awarded a grant of US$600 thousand to be used for the development of crofelemer for the treatment of cholera. In the six month period ended 30 June 2007, Napo recognized US$142,000 of revenue related to this grant.

Plant Screening Agreement

In January 2007, Napo and Nicholas Piramal India Limited ("NPIL"), one of India's leading pharmaceutical companies entered into a Plant Screening Agreement to discover novel diabetes therapeutic agents. As part of the agreement, NPIL will utilize its High Throughput Screening facility and Natural Product Chemistry expertise along with biological testing capabilities to identify active compounds from Napo's library of medicinal plant extracts from tropical regions. Napo and NPIL will jointly own all products developed under the agreement.

Financial Review

Six months ended 30 June 2007 compared to 30 June 2006

In the first six months of the year Napo had contract revenue of US$142 thousand related to the NIH-NIAID grant associated with the development of a formulation of crofelemer for cholera.

Research and development expenses were US$7.0 million in the six month period ended 30 June 2007 compared to US$2.3 million in the six months ended 30 June 2006. The significant increase in R&D expenses is attributable to increased manufacturing activities and clinical activities associated with the CRO-HIV trial including the activities of clinical research organizations. Also in 2007, there was higher headcount in manufacturing, process chemistry and clinical and development functions compared to the period ending 30 June 2006. At the end of June 2007, there were 17 research and development employees compared to 9 at the end of June 2006.

General and administrative expenses were US$3.6 million in the six month period ended 30 June 2007 compared to US$2.1 million in the six months ended 30 June 2006. Contributing factors in the increase in general and administrative expenses were increases in compensation and recruiting costs of US$479 thousand due to an increase in headcount of three for the full 6 month period compared to the prior year period and higher overall compensation and recruiting costs. Legal expenses increased by US$707 thousand due to licensing activities, changes in the composition of the board of directors, corporate development activities and compliance with public company guidelines. Additionally, consulting and travel expenses increased by US$290 thousand. Napo was a private company in the six month period ended 30 June 2006.

Interest income was US$494 thousand in the six months ended 30 June 2007 compared to US$13 thousand in the six months ended 30 June 2006 with the increase attributable to higher cash and short term investment balances in 2007 attributable to funds received from Napo's initial public offering and a subsequent financing in January 2007.

Net loss for the six months ended 30 June 2007 was US$10.0 million compared to US$4.1 million in the period ended 30 June 2006. Net loss attributable to common shareholders was US$10.3 million compared to US$5.6 million in the prior year period. The deemed dividend in 2007 is associated with US$3.0 million of optionally redeemable convertible preferred shares issued by Napo India to ILFS. In 2006 the deemed dividend is associated with Series C Convertible Preferred Shares which subsequently converted to common stock at the time of the initial public offering.

Cash and short term investments on hand at 30 June 2007 were US$14.1 million compared with US$19.7 million at December 2006. The Company's balance sheet was strengthened in July 2006 with the successful completion of its initial public offering which raised approximately US$22.0 million in gross proceeds. The decrease from December 2006 to June 2007 is related to operating losses, offset by US$5.4 million gross proceeds from investors in 2007.

Outlook

Presently, Napo has a working capital shortfall. In addition to its current financing, in order for Napo to complete its clinical studies and obtain the necessary FDA approvals, Napo is pursuing additional funding strategies including debt and further equity issuances. Napo is also exploring several business development opportunities including i) discussions with potential partners in relation to the development and marketing of NP 500 in Asia; and, ii) fundraising and/or collaboration associated with the CFTR inhibitor mechanism, including certain crofelemer rights. If Napo is unable to secure additional funding and, shareholders, if required, do not approve such financing, Napo would have to curtail certain expenditures which it considers necessary for optimizing the probability of success of Napo's clinical development programs, including delaying the CRO-HIV clinical trial which would have a material adverse effect on the Company's operations.

Napo is concurrently conducting a trial for crofelemer for a cholera indication and expects to incur costs related to this trial for the remainder of this year, with certain of these costs to be offset by the cholera grant Napo received from the NIH-NIAID. Napo is currently looking at additional opportunities to exploit its plant library for the in-licensing of new indications and subject to available funds witll develop and later seek a partnership for the further development of NP 500 for insulin resistance.

Thank you for your support.

Charles Thompson
Chief Financial Officer
28 September 2007

Condensed and Consolidated Balance Sheets, Statements of Operations and Cash Flows for the Periods Ended 30 June 2007, 30 June 2006 and 31 December 2006.

Condensed Consolidated Balance Sheets

	30 June 2007 (Unaudited) $USD	*30 June 2006 (Unaudited) $USD*	*31 December 2006 $USD*
Assets			
Cash and cash equivalents	661,347	4,456,925	920,704
Short-term investments	13,430,384	---	18,803,881
Stock subscriptions receivable	---	---	599,998
Deferred financing costs	1,211,054	1,770,254	---
Prepaid expenses and deposits	281,705	31,222	36,856
Prepaid license fee	156,522	---	---
Other current assets	527,137	111,800	221,712
Total current assets	16,268,149	6,370,201	20,583,151
Property and equipment, net	557,717	85,331	425,961
Prepaid license fee	1,291,304	---	---
Patent, net	97,219	125,000	111,109
Total Assets	18,214,389	6,580,532	21,120,221
Liabilities			
Accounts payable	2,349,278	1,531,338	414,060
Deposit for warrant exercises	---	1,508,519	---
Accrued compensation	451,137	323,839	535,415
Other current liabilities	1,368,872	239,103	1,350,206
Total current liabilities	4,169,287	3,602,799	2,299,681
Convertible Redeemable Preference Shares (Optionally convertible, redeemable preference shares, 1 Indian Rupee par value, 3,529,412 shares authorized, issued and outstanding, aggregate liquidation preference of $6,010,830)	6,010,830	3,086,296	5,710,830
Commitments and Contingencies (Notes 4 and 6)			
Stockholders' Equity			
Convertible preferred stock, $0.0001 par value, 30,000,000 shares authorized;			
Series A: 6,030,000 shares designated, 5,858,350 shares issued and outstanding at 30 June 2006, aggregate liquidation preference of $1,756,333	---	1,759,335	---
Series B: 7,000,000 shares designated, 6,999,233 shares issued and outstanding at 30 June 2006, aggregate liquidation preference of $3,499,617	---	3,459,001	---
Series C: 15,000,000 shares designated, 8,383,548 shares issued and outstanding at 30 June 2006, aggregate liquidation preference of $7,126,014	---	8,336,316	---
Common stock: $0.0001 par value, 90,000,000 shares authorized; 43,638,470, 1,314,240 and 39,910,222 shares issued and outstanding	4,363	130	3,991
Common stock subscribed	---	---	49
Stock subscriptions receivable	---	---	(300,000)
Accumulated other comprehensive loss	(6,073)	---	(7,658)
Additional paid-in capital	41,341,390	796,991	36,328,335
Deficit accumulated during the development stage	(33,257,945)	(14,460,336)	(22,915,007)
Common stock in treasury at cost, 25,614 shares at 30 June 2007	(47,463)	---	---
Total Stockholders' Equity	8,034,272	(108,563)	13,109,710
Total Liabilities, Convertible Redeemable Preference Shares and Stockholders' Equity	18,214,389	6,580,532	21,120,221

See summary of accounting policies and notes to condensed financial statements

Condensed Consolidated Statements of Operations

	Six months ended 30 June 2007 (unaudited) $USD	Six months ended 30 June 2006 (unaudited) $USD	Period from Inception (15 November 2001) Through 30 June 2007 (unaudited) $USD
Revenue	142,372	108,731	2,704,210
Operating expenses:			
Cost of revenue	---	---	194,601
General and administrative(1)	3,639,411	2,120,154	13,355,687
Research and development(2)	7,039,909	2,271,784	18,824,131
Total operating expenses	10,679,320	4,391,938	32,374,419
Loss from operations	(10,536,948)	(4,283,207)	(29,670,209)
Gain from insurance recovery	---	172,051	172,051
Interest income, net	494,010	12,638	417,020
Other income, net	---	---	65,200
Net loss	(10,042,938)	(4,098,518)	(29,015,938)
Preferred stock deemed dividend	(300,000)	(1,459,452)	(4,242,007)
Net loss attributable to common stockholders	(10,342,938)	(5,557,970)	(33,257,945)
Basic and diluted net loss per common share	0.24	16.12	
Basic and diluted net loss per common share (Pounds)	0.12	8.88	
Shares used in basic and diluted net loss per common share Calculation	43,287,532	344,766	

Included in operating expenses is noncash stock-based compensation as follows:

(1) General and administrative	27,490	59,005	489,393
(2) Research and development	639,342	365,868	1,512,074

See summary of accounting policies and notes to condensed financial statements.

Consolidated Statement of Shareholder's Equity, Optionally Convertible Redeemable Preference Shares ("OCRPS") and Accumulated Other Comprehensive Income

	OCRPS		Common Stock		Common Stock Subscribed		Stock Subscriptions	Paid-In	Series A Preferred Stock		Series B Preferred Stock		Series C Preferred Stock		Accumulated Deficit	Accumulated Other Comprehensive Income	Stockholders' Equity
	Shares	Amount $	Shares	Amount $	Shares	Amount $	Receivable $	Capital $	Shares	Amount $	Shares	Amount $	Shares	Amount $	$	$	$
Issuance of common stock in December 2001for cash			9,378	1				277									278
Issuance of Series A preferred stock for cash									750,000	225,000							225,000
Issuance of Series A preferred stock to pay predecessor expenses, net issuance of costs of $10,150									1,932,341	569,169							569,169
Issuance of common stock warrants for services								2,503									2,503
Issuance of series A warrants for services										3,002							3,002
Issuance of common stock for cash			11,106	1				336									337
Issuance of Series A preferred stock, net of issuance costs of $3,543									3,176,009	962,164							962,164
Compensation recognized under incentive stock option plans								31,602									31,602
Net loss from inception through 31 December 2002															(1,845,358)		(1,845,358)
Balances at 31 December 2002			20,484	2				34,718	5,858,350	1,759,335					(1,845,358)		(51,303)
Compensation recognized under incentive stock option plans								67,667									67,667
Net loss															(1.972,121)		(1.972,121)
Balances at 31 December 2003			20,484	2				102,385	5,858,350	1,759,335					(3,817,479)		(1,955,757)

See summary of accounting policies and notes to condensed financial statements

(continued)

	OCRPS Shares	OCRPS Amount $	Common Stock Shares	Common Stock Amount $	Common Stock Subscribed Shares	Common Stock Subscribed Amount $	Stock Subscriptions Receivable $	Paid-In Capital $	Series A Preferred Stock Shares	Series A Preferred Stock Amount $	Series B Preferred Stock Shares	Series B Preferred Stock Amount $	Series C Preferred Stock Shares	Series C Preferred Stock Amount $	Accumulated Deficit $	Accumulated Other Comprehensive Income $	Stockholders' Equity $
Balances at 31 December 2003			20,484	2				102,385	5,858,350	1,759,335					(3,817,479)		(1,955,757)
Issuance of common stock in exchange for services			20,000	2				600									602
Issuance of common stock warrants in exchange for services in March and April 2004								4,117									4,117
Issuance of Series B preferred stock, including conversion of short term personal notes payable											6,999,233	3,459,001					3,459,001
Issuance of common stock warrants with preferred stock								115,585									115,585
Compensation recognized under incentive stock option plan								54,851									54,851
Net loss															(1,748,280)		(1,748,280)
Balances at 31 December 2004				40,484	4			277,538	5,858,350	1,759,335	6,999,233	3,459,001			(5,.565,.759)		(69,881)
Issuance of common stock warrants in exchange for services								5,705									5,705
Issuance of Series C preferred stock, net of issuance costs of $24,185													5,260,017	4,451,029			4,451,029
Compensation recognized under incentive stock option plans								42,006									42,006
Net loss															(3,336,607)		(3,336,607)
Balances at 31 December 2005				40,484	4			325,249	5,858,350	1,759,335	6,999,233	3,459,001	5,260,017	4,451,029	(8,902,366)		1,092,252

See summary of accounting policies and notes to condensed financial statements

(continued)

	OCRPS Shares	OCRPS Amount $	Common Stock Shares	Common Stock Amount $	Common Stock Subscribed Shares	Common Stock Subscribed Amount $	Stock Subscriptions Receivable $	Paid-In Capital $	Series A Preferred Stock Shares	Series A Preferred Stock Amount $	Series B Preferred Stock Shares	Series B Preferred Stock Amount $	Series C Preferred Stock Shares	Series C Preferred Stock Amount $	Accumulated Deficit $	Accumulated Other Comprehensive Income $	Stockholders' Equity $
Balances at 31 December 2005			40,484	4				325,249	5,858,350	1,759,335	6,999,233	3,459,001	5,260,017	4,451,029	(8,902,366)		1,092,252
Issuance of Series C Preferred stock net of issuance costs													3,135,291	2,654,110			2,654,110
Conversion of preferred stock into common stock on initial public offering			21,352,958	2,135				13,582,517	(5,958,417)	(1,789,335)	(6,999,233)	(3,459,001)	(8,395,308)	(8,336,316)			
Issuance of common stock in connection with option exercises			1,247,090	124				38,039									38,163
Issuance of common and preferred stock upon warrant exercises			2,569,036	257				1,315,761	100,067	30,000							1,346,018
Compensation recognized under incentive stock option plans								981,060									981,060
Issuance of OCRPS, net of issuance costs of $141,979	3,529,412	2,858,021															
Deemed dividend on OCRPS		2,294,118													(2,294,118)		(2,294,118)
Accretion of OCRPS		416,712													(416,712)		(416,712)
Recognition of issuance costs on issuance of OCRPS		141,979						(141,979)									(141,979)
Preferred stock deemed dividend														1,231.177	(1,231,177)		
Issuance of common stock for cash, net of issuance cost of $139,981			400,606	41				368,989									369,030
Issuance of common stock for cash in connection with initial public offering, net of issuance costs of $3,192,308			14,300,048	1,430				18,932,814									18,934,244
Common stock issuable for cash					324,727	32		599,966									599,998
Common stock issuable under subscription agreements					170,482	17	(300,000)	299,983									
Issuance of warrants for services								25,936									25,936
Unrealized loss on investments																(7,658)	(7,658)
Net loss															(10,070,634)		(10,070,634)
Comprehensive loss																	(10,078,292)
Balances at 31 December 2006	3,529,412	5,710,830	39,910,222	3,991	495,209	49	(300,000)	36,328,335							(22,915,007)	(7,658)	13,109,710

See summary of accounting policies and notes to condensed financial statements

(continued)

	OCRPS		Common Stock		Common Stock Subscribed		Stock Subscriptions	Paid-In	Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Income	Stockholders' Equity
	Shares	Amount $	Shares	Amount $	Shares	Amount $	Receivable $	Capital $	Shares	Amount $	$	$	$
Balances at 31 December 2006	3,529,412	5,710,830	39,910,222	3,991	495,209	49	(300,000)	36,328,335			(22,915,007)	(7,658)	13,109,710
Common stock issued under subscription agreements			495,209	49	(495,209)	(49)	300,000						300,000
Issuance of common stock for cash, net of issuance costs of $422,958			2,431,300	243				4,298,635					4,298,878
Issuance of common stock in connection with option exercises			677,468	68				47,588	25,614	(47,463)			193
Issuance costs paid with common stock			124,271	12									12
Compensation recognized under incentive stock option plans								666,832					666,832
Accretion of OCRPS		300,000									(300,000)		(300,000)
Unrealized gain on investments												1,585	1,585
Net loss											(10,042,938)		(10,042,938)
Comprehensive loss													(10,041,353)
Balances at 30 June 2007	3,529,412	6,010,830	43,638,470	4,363				41,341,390	25,614	(47,463)	(33,257,945)	(6,073)	8,034,272

See summary of accounting policies and notes to condensed financial statements

Condensed Consolidated Statements of Cash Flows

	Six months Ended 30 June 2007 (unaudited) $USD	*Six months Ended 30 June 2006 (unaudited) $USD*	*Period from Inception (15 November 2001) through 30 June 2007 (unaudited) $USD*
Operating Activities			
Net loss	(10,042,938)	(4,098,518)	(29,015,938)
Adjustments to reconcile net loss to net cash Used in operating activities:			
Depreciation and amortization	133,887	24,339	411,168
Stock based compensation expense	666,832	424,873	2,001,467
Issuance of preferred stock to pay predecessor expenses	---	---	569,169
Changes in assets and liabilities:			
Deferred issuance costs	(1,211,054)	(1,770,254)	(1,211,054)
Prepaid expenses and deposits	(244,849)	13,091	(281,705)
Prepaid license fee	(1,447,826)	---	(1,447,826)
Other current assets	(305,425)	(44,228)	(527,137)
Accounts payable	1,935,218	1,395,891	2,349,278
Accrued compensation	(84,278)	68,540	451,137
Other current liabilities	18,666	235,471	1,368,872
Total Cash Used in Operating Activities	(10,581,767)	(3,750,795)	(25,332,569)
Investing Activities			
Purchase of property and equipment	(251,753)	(43,916)	(815,503)
Purchase of patent	---	---	(250,600)
Purchase of short-term investments	(8,305,281)	---	(36,020,620)
Sale of short-term investments	13,680,363	---	22,584,163
Total Cash Provided by (Used in) Investing Activities	5,123,329	(43,916)	(14,502,560)
Financing Activities			
Proceeds from issuance of common stock on initial public offering	---	---	18,934,244
Proceeds from issuance of redeemable convertible preference shares	---	---	2,858,021
Proceeds from issuance of short-term notes	---	---	2,456,000
Sale of preferred stock for cash, net of issuance costs	---	5,512,131	9,123,971
Common stock issuable for exercise of warrants	---	1,508,519	1,508,519
Proceeds from stock option exercises	193	46,995	47,188
Sale of common stock for cash, net of issuance costs	4,298,890	---	4,668,535
Proceeds from issuance of common stock under subscription	899,998	---	899,998
Total Cash Provided by Financing Activities	5,199,081	7,067,645	40,496,476
Net increase (decrease) in cash	(259,357)	3,272,934	661,347
Cash, beginning of period	920,704	1,183,991	---
Cash, end of period	661,347	4,456,925	661,347

(Continued)

	Six months Ended 30 June 2007 (unaudited) $USD	*Six months Ended 30 June 2006 (unaudited) $USD*	*Period from Inception (15 November 2001) through 30 June 2007 (unaudited) $USD*
Supplemental Schedule of Cash Flow Information:			
Cash paid for:			
Interest	---	---	---
Income taxes	---	---	---
Supplemental Schedule of Non-Cash Investing and Financing Activities:			
Conversion of preferred stock in connection with initial public offering	---	---	13,584,652
Deemed dividend on optionally convertible redeemable preference Shares	---	---	2,294,118
Deemed dividend on preferred stock	---	---	1,231,177
Issuance of preferred stock as repayment of short-term notes	---	---	2,456,000
Accretion of optionally convertible redeemable preference shares	300,000	416,712	716,712
Accrued interest paid with preferred stock	---	---	73,840

See summary of accounting policies and notes to condensed financial statements

SUMMARY OF ACCOUNTING POLICIES AND NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Organisation, Business and Basis of Presentation

Napo Pharmaceuticals, Inc. ("Napo" or "the Company") was incorporated on 15 November 2001 in Delaware and is focused on licensing, developing and commercialising proprietary specialty pharmaceuticals for the global marketplace in collaboration with partners. Napo is currently developing its proprietary product, crofelemer, for gastrointestinal indications such as diarrhoea-predominant Irritable Bowel Syndrome ("D-IBS"), chronic diarrhoea in people living with HIV/AIDS (AIDS diarrhoea), paediatric diarrhoea and acute infectious diarrhoea. The Company operates in one segment. Napo prepares its financial statements in conformity with accounting principles generally accepted in the United States on a basis consistent with that applied in the annual report.

The Company is considered to be in the development stage as, since inception, its activities have consisted primarily of acquiring the rights to crofelemer, raising capital, attracting employees, establishing facilities, performing research and development, entering into agreements with other entities for the development and commercialisation rights to crofelemer and the analysis of its collection of plant samples for bioactive molecules which could result in potential new drug candidates. Revenue received from inception to date includes initial license payments and miscellaneous sales of non-core product obtained through the purchase of certain Shaman Pharmaceutical, Inc. assets as discussed below.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. At 30 June 2007, Napo had an accumulated deficit of US$33.3 million and expects to incur substantial losses over the next several years while it continues in the development stage. The Company's operations are subject to certain risks and uncertainties frequently encountered by companies in the early stages of operations, particularly in the evolving market for small biotech and specialty pharmaceuticals companies. Such risks and uncertainties include, but are not limited to, timing and uncertainty of achieving milestones in clinical trials and in obtaining approvals by the Food and Drug Administration (the "FDA") and regulatory agencies in other countries, not only by the Company, but by its licensees as well. The ability to generate revenues in the future will depend substantially on the timing and success of reaching development milestones and in obtaining regulatory approvals and market acceptance of products, assuming the FDA and similar regulatory authorities in other countries, approves new drug applications.

The Company plans to meet its future capital requirements primarily through issuances of equity securities (both in the private and public markets), payments under collaborative agreements with third parties, government grants, and license fees. Napo intends to seek additional funding through public or private equity or debt financing, when market conditions allow. There can be no assurance that the Company will be able to enter into financing arrangements on acceptable terms in the future, if at all.

Presently, Napo has a working capital shortfall. In order for Napo to complete its clinical studies and obtain the necessary FDA approvals, Napo is pursuing additional funding strategies including debt and further equity issuances. Napo is also exploring several business development opportunities including i) discussions with potential partners in relation to the development and marketing of NP 500 in Asia; and, ii) fundraising and/or collaboration associated with the CFTR inhibitor mechanism, including certain crofelemer rights. If Napo is unable to secure additional funding and, shareholders, if required, do not approve such financing, Napo would have to curtail certain expenditures which it considers necessary for optimizing the probability of success of Napo's clinical development programs, including delaying the CRO-HIV clinical trial which would have a material adverse effect on the Company's operations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Company's management to make judgments, assumptions and estimates that affect the amounts reported in its financial statements and the accompanying notes. Actual results could differ materially from those estimates. Significant estimates include, but are not limited to, valuation of stock based compensation, impairment of long lived assets, impairment of intangible assets and valuation of deferred tax assets.

Concentration of Credit Risk and Cash and Cash Equivalents

The financial instruments that potentially subject the Company to a concentration of credit risk are cash equivalents and short-term investments. The counterparty to the agreement relating to the Company's investment securities is a financial institution of high credit standing. The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. Cash is placed with a high-credit quality financial institution. Cash is generally in excess of FDIC insurance limits. Napo is exposed to credit risk in the event of default by the financial institution holding the cash to the extent of the amount recorded on the balance sheet. The carrying value of cash and cash equivalents approximates estimated market value at 30 June 2007.

Short-Term Investments

All short-term investments are classified as available-for-sale and therefore carried at estimated fair value based on quoted market prices. All investments are highly liquid (can be liquidated in less than one month) with a ready market. The Company views its available-for-sale portfolio as available for use in its current operations. Accordingly, all investments are classified as short-term, even though the stated maturity date may be one year or more beyond the current balance sheet date. Available-for-sale securities are stated at estimated fair value based upon the quoted market price of the securities. Unrealized gains and losses on such securities are reported as a separate component of stockholders' equity. Realized gains and losses on available-for-sale securities are included in interest income/expense. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income.

The following table summarizes the maturities of the Company's investments at 30 June 2007 (US$):

	Amortized Cost	Gross Unrealized Losses	Fair Value
Less than 1 year	6,737,971	4,365	6,733,606
Due 1-2 years	2,723,486	1,708	2,721,778
Due in 2025	375,000	—	375,000
Due in 2028	3,000,000	—	3,000,000
Due in 2036	500,000	—	500,000
Due in 2040	100,000	—	100,000
Total	13,436,457	6,073	13,430,384

Intangible Asset

In accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Intangible Assets*, the Company performs an annual impairment test for the intangible asset. If the carrying amount is in excess of the fair value, an impairment loss will be recorded. No impairment has been recorded through the date of these financial statements.

The purchased intangible asset represents a composition of matter patent on crofelemer. A composition of matter patent affords patent protection on the novel chemical structure of crofelemer, previously undescribed in the scientific literature. The purchased intangible asset is carried at cost, net of accumulated amortization and is amortized over its remaining estimated useful life of nine years; the remaining legal patent life without extensions.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally three years.

Foreign Currency Translation

Napo translates the assets and liabilities of its foreign subsidiaries to US$ at the rates of exchange in effect at the end of the period. Expenses are translated using rates of exchange in effect during the period.

Impairment of Long-Lived Assets

In accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company reviews long-lived assets, including property and equipment and patents, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Impairment, if any, is assessed using discounted cash flows or other appropriate measures of fair value. Through 30 June 2007, there have been no such losses.

Research and Development Expenses

Research and development expenses consist of expenses incurred in performing research and development activities including related salaries, clinical trial and related drug product costs, contract services and other outside service expenses. Research and development expenses are charged to operating expense in the period incurred.

Napo is currently conducting a trial for crofelemer for the indication of cholera. This trial is being conducted at the International Center for Diarrhoeal Disease in Bangladesh. Approximately 60 patients have been treated since March 2006. Additionally, the Company is preparing for a Phase 3 trial for crofelemer for the indication of diarrhoea associated with HIV/AIDS.

Income Taxes

Napo uses the liability method for income taxes as required by SFAS No. 109, *Accounting for Income Taxes.* Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax reporting bases of assets and liabilities and are measured using enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Currently there is no provision for income taxes as the Company has incurred net losses since inception. To date, Napo has no history of earnings. Therefore, net deferred tax assets are reduced by a valuation allowance to the extent that realization of the related deferred tax asset is not assured. The Company has recorded a valuation allowance for the full amount of its calculated deferred tax assets.

In July 2006, the FASB issued Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109"* (FIN 48), which clarifies the recognition measurement, accounting and disclosure for uncertainty in tax positions. The Company is subject to the provisions of FIN 48 as of January 1, 2007. The Company is subject to audit by the IRS and state authorities for all years since inception. There are currently no ongoing examinations by these authorities. No changes were made to any liabilities for net unrecognized tax benefits as a result of the implementation of FIN 48.

Basic and Diluted Net Loss Per Common Share

Basic net loss per common share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. The computation of basic net loss per share for all periods presented is derived from the information on the face of the statements of operations, and there are no reconciling items in either the numerator or denominator.

Diluted net loss per common share is computed as though all potential common shares that are dilutive were outstanding during the year, using the treasury stock method for the purposes of calculating the weighted-average number of dilutive common shares outstanding during the period. Potential dilutive common shares consist of shares issuable upon exercise of stock options and warrants. The Company has excluded 7,841,871 and 9,495,491 shares for the six months ended 30 June 2007 and 2006, respectively, from the diluted net loss calculation because their inclusion would have been anti-dilutive.

Revenue Recognition

Napo has a federal government research grant which provides for the reimbursement of qualified expenses for research and development related to a cholera study, as defined under the terms of the grant agreement. Revenue under this grant agreement is recognized when the related qualified research expenses are incurred. Grant reimbursements are received on a quarterly or monthly basis and are subject to the issuing agency's right of audit. During the six months ended 30 June 2007 and 2006, the Company recognized US$142,000 and US$109,000, respectively, of revenue under this grant.

Milestone payments under research, partnering, or licensing agreements are recognized as revenue upon the achievement of mutually agreed upon milestones, provided that (i) the milestone event is substantive and its achievement is not reasonably assured at the inception of the agreement, and (ii) there are no performance obligations associated with the milestone payment.

Stock-Based Compensation

Effective 1 January 2002, Napo adopted the preferable fair value recognition provisions of SFAS No. 123, *Stock-Based Compensation*. In December 2004, the Financial Accounting Standards Board "FASB") issued SFAS No. 123(R), *Share-Based Payment*, which is a revision of SFAS No. 123. SFAS 123(R) supercedes SFAS 123 and Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognised in the financial statements based on their fair values at the date of grant and to record that cost as compensation expense over the period during which the employee is required to perform service in exchange for the award (generally over the vesting period of the award). Excess tax benefits, as defined by SFAS 123(R), will be recognized as an addition to additional paid-in capital.

The Company has calculated stock-based compensation expense using the Black-Scholes option valuation model and included the portion of share-based payment awards that is ultimately expected to vest during future periods. Historically, there have been few forfeitures. Additionally, at this time, no forfeitures are anticipated in the foreseeable future. However, in the event that there are forfeitures, estimates will be revised to reflect actual experience. Stock-based compensation expense is recognised on a straight-line basis.

Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 will be effective for the Company on January 1, 2008. The Company is currently evaluating the impact of adopting SFAS 159 on its financial position, cash flows, and results of operations.

Notes to the Financial Statements

1. License and Other Agreements

Milestone Revenue

In June 2004, Napo entered into an agreement with Trine Pharmaceuticals, Inc. ("Trine") regarding certain development responsibilities and commercialization rights of crofelemer, including worldwide development and commercialization rights for IBS and co-development and commercialisation rights in North America for HIV. In accordance with this agreement, Trine was required to make a US$1.0 million cash milestone payment at the earlier of six months from the final study report or the initiation of the enrollment of a Phase 2b study. Trine initiated patient enrollment in the study in October 2006 and subsequently paid the Company US$1.0 million, which has been recorded as revenue during 2006 in these consolidated financial statements.

Revenue from the License or Assignment of Intellectual Property Rights

The Company recognises revenue from the license or assignment of intellectual property rights to third parties, including development milestone payments associated with such agreements if the funds have been received, the rights to the property have been delivered, and the Company has no further obligations under the agreements in accordance with the date(s) when the payment has been received or collection is assured. In June 2004, Napo recognised US$950,000 of license revenue from the grant of a license to Trine Pharmaceuticals, Inc. for the worldwide development and commercialisation rights to Crofelemer for the indication of D-IBS.

Royalty Revenue

In May and June 2005, the Company entered into licensing agreements with AsiaPharm Group Ltd, based in the Peoples Republic of China and Glenmark Pharmaceuticals Limited, based in Mumbai, India, for the license of crofelemer for the indications of AIDS-related diarrhoea, acute infectious diarrhoea and paediatric diarrhoea in their respective territories. AsiaPharm Group, through its subsidiary, AsiaPharm Investments Ltd., invested in Napo's Series C preferred stock as did Glenmark Pharmaceuticals. No royalty revenue has been recognized from these licenses to date.

License Agreement

In February 2007 Napo entered into a license agreement with a company to use certain regulatory information and existing patent held by the licensor in its drug development program. In connection with the license, the Company paid a total of US$1.5 million as an upfront license fee. Napo is committed to pay additional amounts totalling US$1.4 million upon the occurrence of certain future milestones. Future royalty payments will also be due to the licensor in the event that the Company begins selling a product developed in connection with this license. The license fee is being recognised over the estimated 9.5 year remaining life of the underlying patent.

2. Property and Equipment

Property and equipment consists of the following:

	30 June 2007	*30 June 2006*	*31 December 2006*
Lab equipment	$758,531	$85,209	$513,186
Office equipment	55,673	44,775	49,265
Furniture and fixtures	1,299	1,299	1,299
	815,503	131,283	563,750
Less accumulated depreciation	(257,786)	(45,952)	(137,789)
Property and equipment, net	$557,717	$85,331	$425,961

3. Leases

The Company entered into a lease agreement in June 2007 for office space under a noncancelable operating lease, expiring in December 2007. Previous to June 2007, this same space was leased on a month-to-month basis. Rent expense under this operating lease for the six month periods ended 30 June 2007 and 2006 amounted to US$95,000 and US$90,000, respectively.

The Company has also entered into two separate noncancelable lease agreements for new office space, commencing 1 April 2007. The first lease expires on 31 March 2010 and the second lease, beginning on 1 April 2010, expires on 31 March 2014. These two leases relate to the same property, the first being a sub-lease and the second being a primary lease with the ultimate landlord. Rent expense under these operating leases amounted to US$102,000 during the six months ended 30 June 2007.

Future minimum lease payments under these noncancelable leases are as follows:

2007	
Remaining Year	$-
2008	199,497
2009	225,771
2010	483,054
2011	581,404
Thereafter	1,371,404
	$2,861,130

4. Commitments

The Company has at-will employment agreements with certain employees that provide severance payments, including healthcare benefits to be paid in the event of a change of control of Napo, defined in the agreements as a transaction where more than 50 *per cent* of the total combined voting power of its outstanding securities changes ownership, whereby pursuant to a change of control any of the following occur: (i) the employment of these employees is not maintained; (ii) their compensation is changed; (iii) their job title is changed; or (iv) the geographic location of their workplace is changed.

The severance payments vary in length from 6 months to 12 months of the employee's then current level of compensation, including healthcare benefits, as set by the board of directors. As of 30 June 2007, the cost of such severance would equal US$1.3 million.

The Company's licensing agreements with licensees contain provisions whereby Napo has agreed to indemnify and hold harmless its licensees from claims or damages arising from the licensing arrangements.

License Agreement with Michael Tempesta

The Company has entered into a license agreement dated 16 October 2002 with Michael Tempesta. This agreement settled disputes between Shaman and Dr. Tempesta relating to previous license arrangements between Shaman or the Company and Dr. Tempesta. The agreement provides for the payment of a royalty to Dr. Tempesta of between 2 *per cent* and 4 *per cent* of net sales of products containing Crofelemer or any derivative thereof obtained from any species of the Croton plant. "Product" for the purposes of calculating royalties is defined as all products for the treatment, maintenance or improvement of human health which include prescription medicines, botanicals, dietary supplements sold for the treatment of diarrhoea, Irritable Bowel Syndrome ("IBS") or herpes. This excludes cosmetic products, non-medicinal agricultural products and products for non-human animal health.

Healing Forest Conservancy

The Company has entered into an agreement dated 2 May 2006 with the Healing Forest Conservancy ("HFC") pursuant to which the Company has agreed to: (i) issue to HFC 30 thousand common shares in Napo at a purchase price of $0.0001 each; (ii) pay 2 *per cent* of the net profit derived from the sale of all of its products to HFC once Napo has achieved net profits after tax over a consecutive period of 6 months. The aim of Napo's arrangement with HFC is, amongst other things, (i) to promote the conservation of the biological diversity of tropical forests, particularly medicinal plants (ii) to promote the survival of cultural diversity of tropical forest peoples, and in particular, their traditional knowledge of medicinal plants, (iii) to develop and implement a process to return financial benefits from net profits made on certain products to collaborating countries and cultural groups, (iv) to promote initiatives addressing total community health for developing and emerging communities; and (v) to lead efforts to encourage sustainable global communication and participation from other organisations, including corporate, non-governmental organizations, governmental agencies, and others.

5. Stockholders' Equity (Deficit)

Initial Public Offering

On 31 July 2006, upon the initial public offering of its common stock on the Main Market of the London Stock Exchange, Napo issued 14,300,048 shares of common stock at an offering price of US$1.54 per share. At that time, all Series A, B and C Convertible Preferred Stock automatically converted into 21,352,958 shares of common stock. Cash proceeds from the sale, net of underwriters' discount and offering expenses, totaled US$18.9 million. Total shares of Napo common stock outstanding under accounting principles generally accepted in the United States immediately subsequent to the IPO were 39,536,282.

Common Stock

90,000,000 shares of Common Stock are authorised, with a par value of US$0.0001 per share. The Company has reserved shares of common stock for future issuance as follows:

	30 June 2007
Stock options outstanding	7,765,757
Stock options available for future grant	4,771,002
Warrants to purchase common stock	112,634
	12,649,393

In December 2006, Napo entered into subscription agreements to sell 757,707 shares of common stock to various investors at US$1.85 per share, for aggregate consideration of US$1.3 million, net of issuance costs of US$140 thousand. Of the approximate total of US$1.4 million cash proceeds received from the investors, US$500 thousand was received in December 2006, US$600 thousand was received in January 2007, US$200 thousand was received in April 2007 and $100 thousand was received in May 2007. As of 30 June 2007, all of this common stock has been issued.

In January 2007, the Company sold 2,431,300 shares of common stock to an investor at US$1.85 per share. Total cash proceeds were US$4.3 million, net of issuance costs of $423 thousand.

Warrants

During 2002, the Company issued warrants to purchase 100,067 shares of Series A Preferred Stock at US$.2998 per share, valued at US$3 thousand, to its outside counsel for legal fees. These warrants were exercised at the time of the Company's initial public offering.

In March 2004 the Company issued warrants to purchase 2,329,616 shares of common stock at US$0.50 per share, valued at US$108 thousand. These warrants were exercised at the time of the Company's initial public offering.

In September 2004, the Company issued warrants to purchase 175,000 shares of common stock at US$0.50 per share, valued at US$8 thousand. These warrants were exercised at the time of the Company's initial public offering.

In September 2005, the Company issued warrants to purchase 90,000 shares of common stock at US$0.85 per share, valued at US$6 thousand. These warrants were exercised at the time of the Company's initial public offering.

In September 2006, the Company issued fully vested and immediately exercisable warrants to a consultant to purchase 15,625 shares of common stock at US$1.80, valued at US$26 thousand, and recorded as additional paid-in capital. These warrants are exercisable for three years from 15 September 2006. As of 30 June 2007, none of these warrants have been exercised.

Optionally Convertible, Redeemable, Non-Cumulative, Non-Participating Preference Shares

On 19 April 2006, IL&FS Investment Managers Limited ("IL&FS") invested US$3.0 million in Napo India Private Limited ("Napo India"), a company organized by Napo for the purpose of this investment and ongoing activity in India, in exchange for 100 shares of Napo India and 3,529,412 optionally convertible, redeemable, non-cumulative, non-participating preference shares of Napo India having a par value of Rupee One ("OCRPS"). Napo India subsequently invested the US$3.0 million invested by IL&FS in Napo Series C Preferred Stock at US$0.85 per share pursuant to a subscription agreement dated 19 April 2006.

Subsequent to Napo India's investment in Napo Series C Preferred stock, the Company bought 10,000 Shares of Napo India from the existing shareholders of Napo India, and Napo India became an approximately 99 *per cent* owned subsidiary. These consolidated financial statements include the accounts of Napo India at 30 June 2007.

The OCRPSs held by IL&FS have a term of four (4) years from the completion of the subscription as set forth in the Subscription Agreement or the earliest to occur of (x) the due date of the OCRPSs (y) IL&FS receiving the Liquidity Amount (being the net proceeds received by Napo India from the sale of shares of its Common Stock) and (z) the occurrence of a change in Indian law permitting, under applicable law, IL&FS to own and hold shares of Series C Preferred Stock, and after which Napo India sells its Series C Preferred Stock to IL&FS.

The OCRPSs have a redemption premium that yields for IL&FS an internal rate of return of 20 *per cent* per annum on their US$3.0 million investment, calculated from the date of the investment in Napo India until the date of actual receipt by IL&FS of the redemption of the OCRPSs. This redemption premium resulted in a deemed dividend of US$300 thousand during the six months ended 30 June 2007. In addition, it was determined that there was a beneficial conversion feature associated with the OCRPS due to the fair value of the Company's common stock being more than the price per share paid by the investor for the OCRPS. As such, the Company recorded a deemed dividend of US$2.3 million, which was reflected as an increase in accumulated deficit.

Stock Options

The Napo Pharmaceuticals, Inc. 2001 Equity Incentive Plan (the "Plan"), provides for grants of incentive and non-qualified stock options, restricted stock awards, and stock bonuses to our employees directors and consultants. Under the Plan, the total number of shares originally reserved and available for grant was 2,600,000. As a result of a series of amendments which were approved by the stockholders, the number of shares reserved and either granted or available for grant as of 30 June 2007 is 8,500,000. Under the Plan, incentive stock options may be granted at a price per share not less than the fair market value at the date of grant, and nonqualified stock options may be granted at a price per share not less than 85 *per cent* of the fair market value at the date of grant. If, at the time the Company grants an option, the optionee owns stock possessing more than 10 *per cent* of the total combined voting power of all classes of stock of the Company, the option price shall be 110 *per cent* of the fair market value of the shares of the date of grant. Options granted generally have a maximum term of ten years from the grant date and become exercisable over two to three years. As of 30 June 2007, there were options to purchase 6,190,757 shares outstanding under the Plan and 1,631,775 shares available for future grant.

The Napo Pharmaceuticals, Inc. 2006 Equity Incentive Plan (the "2006 Plan"), provides for grants of incentive and nonqualified stock options, restricted stock awards, and stock bonuses to employees, directors and consultants. Under the 2006 Plan, the total number of shares reserved and available for grant is not to exceed 10% of the outstanding common stock of the Company. Under the 2006 Plan, incentive and nonqualified stock options may be granted at a price per share not less than the fair market value at the date of grant. If, at the time the Company grants an option, the optionee owns stock possessing more than 10 per cent of the total combined voting power of all classes of stock of the Company, the option price shall be 110 per cent of the fair market value of the shares of the date of grant. Options granted generally have a maximum term of ten years from the grant date and become exercisable over two to three years. As of 30 June 2007, there were options to purchase 1,575,000 shares outstanding under the 2006 Plan and 3,139,227 shares available for future grant.

The application of the Black-Scholes option valuation model (see Note 1) involves the use of assumptions that are judgmental and sensitive in the determination of stock-based compensation expense. The key assumptions used in determining the fair value of options granted during the six months ended 30 June 2007 and 2006 are as follows:

	Six months ended 30 June	
	2007	*2006*
Expected price volatility	267%	267%
Risk-free interest rate	5.00%	5.29%
Weighted average expected life in years	10	10
Dividend yield	—	—
Forfeiture rate	—	—

A summary of activity under the Plan as of 30 June 2007 is as follows:

		Outstanding Options	
	Shares Available for Grant	*Number of Shares*	*Weighted-Average Price Per Share*
Balances at 31 December 2006	5,160,738	7,683,225	$0.333
Additional shares authorised	370,264	---	---
Options granted	(760,000)	760,000	$1.800
Options exercised	---	(677,468)	$0.070
Balances at 30 June 2007	4,771,002	7,765,757	$0.494

The following table summarises information about stock options outstanding at 30 June 2007:

Exercise Prices	*Number Outstanding at 30 June 2007*	*Outstanding Options Weighted-Average Remaining Contract Life*	*Options Vested at 30 June 2007*
$0.030	1,026,156	5.20	1,026,156
$0.050	1,581,806	6.56	1,581,441
$0.085	574,136	7.92	476,687
$0.170	944,795	8.52	533,471
$0.300	83,478	4.85	83,478
$0.340	1,880,386	8.82	1,105,804
$0.850	100,000	8.97	100,000
$1.730	300,000	9.05	133,881
$1.800	1,275,000	9.44	282,018
	7,765,757	7.85	5,322,936

The weighted-average fair value of options granted during the six months ended 30 June 2007 and 2006 was US$1.80 and US$1.02, respectively.

6. 401(k) Plan

In April 2005, Napo adopted a Tax Deferred Savings Plan under Section 401(k) of the Internal Revenue Code (the "Plan") for all full-time employees. Under the Plan, eligible employees can contribute amounts to the Plan via payroll withholding, subject to certain limitations. Matching contributions to the Plan are discretionary and can only be made in cash. To date, the Company has made no employer contributions to the plan.

7. **Subsequent event**

In September 2007, Napo received commitments of US$4.0 million from investors to purchase Napo common stock at 70 pence per share. The acceptance of these funds and issuance of common stock to investors is subject to shareholder approval.

Napo has called a shareholder meeting, scheduled to be held on 22 October 2007 to disapply existing pre-emption rights in respect of the issuance of the common stock to these investors.

The net proceeds received from the fundraising together with existing resources and other funds which Napo expect to raise through other fundraising activities such as debt and equity finance and business development activities will be used to finance costs of the CRO-HIV Phase 3 trial.

Napo plans to supplement existing resources and the net proceeds from the financing through business development activities including i) discussions with potential partners in relation to the development and marketing of NP 500 in Asia; and, iii) fundraising and/or collaboration associated with the CFTR inhibitor mechanism, including certain crofelemer rights. These activities, if successful, are together with equity and/or debt issuances are anticipated to provide adequate funds to advance the CRO HIV trial to a point where an NDA for the indication can be filed with the US FDA (unaudited). There can be no assurance that Napo will be able to do so.

If Napo shareholders do not approve the issuance of Napo common stock, pursuant to the commitments mentioned above, and/or the business development activities do not provide adequate funds or are unsuccessful, Napo will not have enough funds to complete the CRO HIV trial as presently designed and will seek alternative funding and or strategies.

DIRECTORS, SECRETARY AND ADVISERS

Directors	Sir William N. Young *Non-executive Chairperson* Lisa A. Conte *Chief Executive Officer* Gregory Stock *Non-executive Director* Thomas Van Dyck *Non-executive Director* Jack Van Hulst *Non-executive Director*
Company Secretary	Charles Thompson
Principal Place of Business and Directors' Business Address	1170 Veterans Boulevard, Suite 244 South San Francisco, California 94080 Tel: _1 650 616 1903
Sponsor, Underwriter and Broker	Nomura Code Securities Limited 1 Carey Lane, London EC2V 8AE
Solicitors to the Company	Reed Smith Richards Butler LLP Minerva House 5 Montague Close London SE1 9BB
Reporting Accountants	BDO Stoy Hayward LP Prospect Place 85 Great North Road Hatfield Hertfordshire AL9 5BS
Financial Public Relations	Buchanan Communications Limited 45 Moorfields London EC2Y 9AE
Registrars	Computershare Investor Services (Channel Islands Limited) PO Box 83 Ordanance House 31 Pier Road St. Helier Jersey JE4 8PW
Principal Bankers	Bank of America South San Francisco Branch 955 El Camino Real South San Francisco CA 94080